EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES

No.30,838 · Tuesday May 9 1989 · D 8523A

WEST GERMANY
**EC brewers show no taste for purity**
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## World News

### Thatcher criticises Ortega policy in Nicaragua

Margaret Thatcher, UK Prime Minister, attacked the policies being pursued by Nicaraguan President Daniel Ortega as the two leaders met in London. Page 22

**US admits N-loss**
US authorities confirmed that a hydrogen bomb was lost in 1965 near the Japanese island of Okinawa. Page 22

**E German poll claim**
East German church officials have accused the Communist Party leadership of rigging local elections. Page 22

**EC condemns Iran**
European Community condemned Iran's call on Palestinians to kill Westerners as unacceptable, and welcomed the Palestine Liberation Organisation's rejection of the Iranian call. Page 4

**Solidarity into print**
Solidarity launched the first legal opposition daily newspaper in Eastern Europe for more than 40 years. Page 2

**Japanese PM search**
Japanese politicians continued the search for a successor to Noboru Takeshita, the Prime Minister, who is resigning over the Recruit scandal. Page 4

**Austrian right-turn**
Joerg Haider, leader of Austria's emerging right-wing Freedom Party, has become governor of Carinthia province after the Socialists failed to win an absolute majority in the March 12 regional poll.

**East-West contact**
Unprecedented contacts between top military commanders of Nato and the Warsaw Pact are expected in London next week. Page 3

**Rebels reject peace**
Sudanese rebels rejected a government offer to form a joint committee to enforce a ceasefire. Page 4

**New Serb president**
Serbia's nationalist party leader, Slobodan Milosevic, was elected president of the republic. Page 2

**Bolivian election**
Gonzalo Sanchez de Losada, candidate of Bolivia's ruling party, looked best placed to become president. Page 6

**Iran 'planned bomb'**
Iran planned the bombing of the Pan Am jet which crashed on Lockerbie last December as revenge after the US navy shot down an Iranian airliner over the Gulf six months earlier, West German magazine Quick said.

**Menem leads polls**
Carlos Menem, Peronist candidate in the Argentine presidential campaign, is ahead in opinion polls. Page 6

**Swedish air crash**
Sixteen people were killed when a commuter aircraft crashed in Sweden.

**Italian fraud arrest**
Police arrested 23 people in Sicily on suspicion of a $7m state benefits fraud.

**Arab League delay**
The Arab League has delayed sending observers to Lebanon until a ceasefire is in force.

## Business Summary

### Norway opens bond market to foreign investors

Norway's bond market has decided to throw open its doors to all comers after five years of isolation in which foreign investors had been kept at bay. Page 23

ENTERPRISE OIL, British Gas and Amerada Hess are to go to court over which has rights to buy into Texas Eastern North Sea, the UK exploration and production subsidiary of the US gas transmission company. Page 30

VARITY, the Canadian industrial machinery manufacturer formerly known as Massey-Ferguson, is set to acquire Prushauf of Detroit in a deal worth $680m. Page 26

RAUMA-REPOLA, the Finnish marine technology group, has signed a contract to supply the Iranian national oil company with an oil platform worth $75m. Page 6

REDIFFUSION Simulation, of Britain, is to assemble commercial flight simulator equipment in the US. Page 6

BENETTON, the Italian clothes manufacturer, is revising its image as it seeks to raise up to $145m from investors in the US, Canada, Japan and Europe. Page 23

WEST GERMANY'S trade surplus rose 44 per cent in the first quarter to $19.2bn. Page 3

MITSUBISHI MOTORS of Japan will be offered up to a quarter of United Motors, a Sri Lankan vehicle distributor, in the first privatisation venture of the Premadasa government. Page 25

BEIJER INDUSTRIES, the Swedish industrial group, has raised its offer for Brinkmann Instruments of the US. Page 24

REGAL HOTELS group of Hong Kong, controlled by Mr Lo Yuk Sui, reported a 52 per cent increase in net profits of $33.7m. Page 25

ARES-SERONO, Swiss-based pharmaceuticals group, reported a 27 per cent climb in net earnings. Page 24

INTERTANKO, the Oslo-based International Association of Independent Tank Owners warned that freight rates would have to be increased to justify investment required to renew world tanker fleets. Page 6

INDIA'S trade deficit for the year to April soared to $4.75bn. Page 4

GOTABANKEN, Swedish bank, said government proposals to cool the overheated economy were unlikely to solve long-term problems. Page 2

TNT transport group and retailer Coles Myer, two of Australia's largest companies, reported third quarter figures which point to buoyant performances. Page 25

NORCEN ENERGY Resources of Canada reported boosted profits in the first quarter following higher oil production and better prices. Page 26

CORPORATE Bank (Corbank), Hill Samuel's former South African subsidiary, has blamed inadequate systems for a cut in income. Page 25

CAMBIOR, a Canadian gold-mining group, has $30m cash available to support an aggressive acquisition programme in north-western Quebec and western US. Page 26

KEELEY GRANITE, South Africa's largest exporter of black granite, more than doubled its sales in the year to February. Page 25

SEARS, the UK retailing group which owns Selfridges, warned that 1989-90 was expected to be a difficult year, with high mortgage rates depressing customer spending. Page 30

## MARKETS

**Spain**
Madrid SE Index


**INTEREST RATES**
**US lunchtime**
Federal Funds 9 11/16% (same)
3-mth Treasury Bills: yield: 8.778% (8.731)
Long Bond: 98 7/8 (99 1/8)
yield: 8.976% (8.951)
**London**
3-month interbank close 12 31/32% (12 7/8)

**STERLING**
**New York close**
$1.68515 (1.6755)
**London:**
$1.6895 (1.6740)
DM3.1850 (3.1775)
FFr10.7425 (10.7275)
SFr2.8450 (2.8425)
Y225.00 (224.75)

**DOLLAR**
**New York close**
DM1.9085 (1.89725)
FFr6.4345 (6.4030)
SFr1.70205 (1.69575)
Y134.80 (134.225)
**London:**
DM1.9075 (1.8985)
FFr6.4350 (6.4075)
SFr1.7040 (1.6985)
Y134.80 (134.30)

**GOLD**
New York latest
Comex June
$378.3 (379.3)

**STOCK INDICES**
**New York close**
Dow Jones Ind. Av.
2,376.47 (-5.49)
S&P Comp
306.00 (-1.61)
**London:**
FT-SE 100
2,119.6 (-13.2)
World:
145.23 (Fri)
**Tokyo**
Nikkei Ave
34,135.24 (+180.26)
**Frankfurt**
Commerzbank
1,721.6 (-0.4)

**OIL**
Brent 15-day (Argus)
$17.85 (-0.55) (June)
West Tex Crude
$19.645 (-0.60) (June)

# PLO urged to weigh the political cost of WHO membership

By William Dullforce in Geneva

WESTERN diplomats sympathetic to the Palestinian cause – and even some Third World officials – believe Mr Yassir Arafat is committing a grave blunder in persisting with the Palestine Liberation Organisation's application for membership of the World Health Organisation.

WHO is widely regarded as one of the most effective of the UN's technical agencies and its success is partly attributed to it having avoided the political squabbling that has beset other agencies, such as the UN Educational, Scientific and Cultural Organisation.

Among WHO's triumphs has been the eradication of smallpox and it is now co-ordinating the worldwide campaign against AIDS, the latest disease to reach global epidemic proportions.

Although President François Mitterrand appears to have concentrated on other sides of the Middle East peace process during Mr Arafat's recent visit to Paris, European governments have been urging the PLO leader and Arab governments to assess the cost, including the political price, of targeting WHO in the drive for international recognition of the newly declared state of Palestine.

The US will immediately end its 25 per cent contribution to WHO's annual budget of some $325m and its share of approximately the same amount in voluntary contributions to WHO's special programmes if Palestine is elected. European officials argue that those likely to suffer most are nations such as India, Bangladesh and Burma, that normally support the PLO.

On the political front, Mr Arafat could hardly expect the US to continue the dialogue with the PLO over Middle East peace initiatives, which it started in December after Mr Arafat had recognised Israel's right to existence and renounced terrorism, the Europeans say. Mr Hiroshi Nakajima, the Japanese who took over as WHO director general last year, flew to PLO headquarters in Tunis on Saturday to spell out for Mr Arafat the damage loss of US funding would cause health programmes around the world.

WHO's basic job is to raise levels of world health. Its regular budget funds grassroots programmes for training health personnel, ensuring the availability of essential drugs, maternal and child care and co-ordinating projects for securing such fundamentals as safe drinking water.

It monitors observance of international health regulations and aids governments in setting standards for drugs and food safety. It conducts a worldwide epidemic watch, which regularly warns against

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# Dollar breaks through DM1.90 after central bankers stand aside

By Simon Holberton, Economics Staff, in London

THE DOLLAR rose above DM1.90 on the foreign exchange markets yesterday after the world's leading central banks stepped aside and allowed it to pass through this barrier.

The DM1.90 level had been seen by foreign exchange dealers as the upper limit for the dollar against the West German currency under the secret terms of the February 1987 Louvre Accord among the major industrialised nations on currency stability.

The decision by central banks from the Group of 10 leading industrialised countries not to intervene to brake the US currency's advance reflected discussions held in Basle, Switzerland, yesterday and on Sunday on the effectiveness of the central banks' recent attempts to restrain the rise.

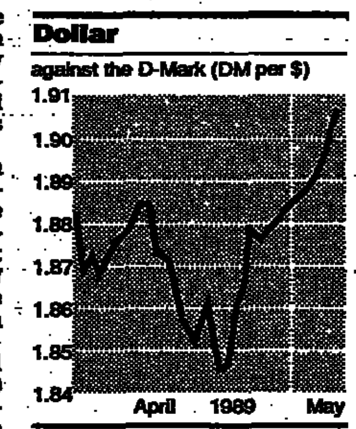
Central bankers attending the meeting at the Basle-based Bank for International Settlements said the dollar's strength was "the single most important issue" discussed there.

The dollar closed at DM1.9075 in London – its highest level since August last year – after a close on Friday of DM1.8985, and at Y134.80 compared with Y134.30. It reached highs of DM1.9130 and Y134.95 in New York but slipped back to close around London levels.

Analysts said the strength of the dollar reflected a move by European and Far East investment managers to rebuild their US dollar-denominated assets, such as bonds and equities.

The central bankers' soul-searching came after 10 days in which monetary authorities in Europe and North America sold dollars in foreign currency trading on almost every occasion when it threatened to go through the DM1.90 level. Total intervention last week was put at several hundred million dollars, one European official estimated.

**Dollar**
against the D-Mark (DM per $)




At the Basle meetings the central bankers discussed the effectiveness of their intervention and whether they were conducting it in the most appropriate way. Although it appears that they are now prepared to let the market have its head for the time being, there is no sign that intervention has been abandoned.

"Intervention is all very well but sometimes it is wise to decamp and fight another day," said one senior official attending the Basle meetings.

Explaining the absence of the central banks from yesterday's exchanges, other European officials said the central banks preferred not to lean against the wind in their currency market operations. They were not defending fixed exchange rates, one said.

Mr Karl Otto Pöhl, Bundesbank president, said in Basle that the dollar's level "is what the markets decide and so we have to live with it." He described the dollar's strength as remarkable.

However, the US Federal Reserve was reported to have sold dollars for D-marks and yen in early afternoon trading in New York when the US currency was trading at DM1.9080 and Y134.75. The US central bank appeared to be acting alone and, because the intervention coincided with Mr Pöhl's remarks, was ineffective.

The central banks' decision not to intervene is consistent with the February 1987 Louvre Accord which is believed to operate on a system of "soft" targets for the major currencies. This allows the currencies to fluctuate with greater freedom than would obtain under a more rigid framework, leaving central banks to intervene when the market least expects.

But yesterday's decision to tolerate a strong dollar also reflects recent statements from senior officials at the US Treasury and the US Federal Reserve, the US central bank. These officials have said they were not perturbed.

In Basle, the Fed indicated to fellow central banks that it supported a collective approach to intervention but that it was not opposed to a stable and slowly rising dollar.

Participants at the meetings also noted that the West German authorities continue to be unnerved by the failure of the foreign exchange market to respond to the Bundesbank's decision to raise its key interest rates and to the Bonn Government's plan to cancel the introduction of withholding tax.

The decision to raise interest rates in April was taken against the wishes of Mr Pöhl, and brought into the open a split between the bank's Frankfurt-based directorate and the provincial governors of West Germany's state central banks.

Economists expect the dollar to rise further over the coming weeks. Mr David Morrison, international economist at Goldman Sachs, said: "There is an underlying investment demand for the dollar. European and Far East investment managers are reallocating funds to the US where their portfolios have been underweight for years."

# Japanese ministry to press for telecoms review

By Robert Thomson in Tokyo

JAPAN'S powerful Ministry of International Trade and Industry is to press for a review of telecommunications policies that the US argues have blocked the entry of foreign equipment. The issue is at the centre of increasing trade tension between the two countries.

Mr Hiroshi Mitsuzuka, the Miti Minister, has just returned from the US and yesterday met government colleagues to explain the depth of US feeling over Japan's large and enduring bilateral trade surplus.

He is known to believe that the telecommunications issue, as well as US complaints over access for supercomputers and semiconductors, are "symbolic" problems that must be addressed quickly.

The US Trade Representative's office argues that Japan has violated agreements on telecom products and has drawn up a list of 34 Japanese products which could be subject to duties of 100 per cent if action is not taken swiftly to open the market. Mr Mitsuzuka has urged agreement on potential action by late this month.

A key issue is the ability of US mobile phone companies, in particular Motorola, to obtain the radio frequencies needed to offer their services in Japan. Japan's Ministry of Posts and Telecommunications says all suitable frequencies are already taken and that Motorola will have to wait about five years for a vacancy.

Miti officials say their minister will be making clear to the Posts and Telecommunications Ministry the impatience of US officials.

Senator Connie Mack of Florida is accosted by supporters of official presidential candidate Carlos Duque as he arrives to observe voting at a Panama City polling station

# Both sides claim victory in Panama

By Tim Coone in Panama City and Lionel Barber in Washington

BOTH MAIN presidential contenders in Panama's general elections claimed victory yesterday amid signs of serious irregularities in the vote-counting process.

In the run-up to Sunday's poll, the US had accused Gen Manuel Antonio Noriega, Panama's strongman, of widespread fraud, intimidation and ballot-rigging. Yesterday US officials refrained from prejudging the results until international observers report.

No official results have been released but Mr Carlos Duque, the pro-government candidate, proclaimed five hours after polling stations had closed that Colina, his eight-party alliance, was assured of an "ample majority" based on early returns.

An hour later, Mr Guillermo Endara, the candidate for the three-party ADOC opposition alliance, claimed a "landslide victory" with returns from 82 out of 4,255 polling stations around the country giving 78 per cent of the vote to ADOC and only 21 per cent to Colina.

Independent observers and foreign journalists, having taken sample results from early voting returns at polling stations in the capital, obtained results similar to those claimed by the opposition. Mr Jimmy Carter, the former US President who is part of an international observer team in Panama, said the vote was running between two and

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# Barclays to raise $200m with 'permanent' preference shares

By David Lascelles, Banking Editor, in London

BARCLAYS BANK of the UK is to become the first bank outside the US to raise capital in a new form designed to meet international capital regulations agreed last year.

The issue takes the form of $200m of preference shares on which dividends can be interrupted if the bank runs into trouble. The shares are also permanent which means that, in theory, they need never be repaid.

These conditions will enable Barclays to count the capital as "Tier 1" under the new Basle agreement, comparable to share capital. Tier 1 is the purest form of capital and it dictates the rate at which banks can expand their lending.

The issue is being lead-managed by Shearson Lehman Hutton, Goldman Sachs and Merrill Lynch. It is being priced to yield a fixed rate of 11¼ per cent gross and will be marketed to private US investors. Although it is permanent, Barclays may redeem it after five years provided it satisfies certain conditions laid down by the Bank of England.

The issue does not need the approval of Barclays shareholders because it is being issued by a subsidiary rather than the parent company.

Preference shares of this kind are seen as an increasingly attractive means for banks to raise Tier 1 capital without resorting to rights issues. The fact that they are denominated in dollars also helps banks match the composition of their capital with that of their lending.

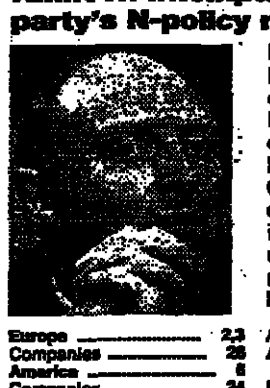
Several other banks have plans to make similar issues. Midland recently issued proposals for £150m and $250m of preference shares, and the Allied Irish Bank wants to create $300m and £125m worth.

The Basle Committee of banking supervisors, which is overseeing the implementation of the new agreement, has only so far approved shares of the type being issued by Barclays for inclusion with equity in Tier 1. Supervisors have warned that they intend to keep a close eye on innovative instruments to prevent the agreement being subverted.



## CONTENTS

**Kinnock attempts to lead his party's N-policy retreat**



Mr Neil Kinnock, leader of Britain's opposition Labour Party, will today seek endorsement from his National Executive Committee for abandoning its long-standing defence policy of unilateral disarmament
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## EUROPEAN NEWS

# Polish opposition daily launched

By Christopher Bobinski in Warsaw

POLAND'S first independent opposition daily, The Gazeta Wyboreza, went on sale yesterday with a picture of Mr Lech Walesa, the Solidarity leader, on the front page. Most of the first issue was devoted to the biographies of Solidarity's candidates for the June 4 parliamentary elections.

The eight-page tabloid newspaper had a print run of 150,000, which it plans to increase to 500,000 over the next few days, saying it was devoted to expressing "the views of the whole of independent society and its various opposition trends."

Yesterday's front page, which has been passed by the state censors, said that delegates to last week's Communist Party meeting in Warsaw were worried that voters would not support Communist Party candidates.

The paper also reported on a meeting last Friday between Mr Walesa and the Polish Primate, in which the Primate was reported to be worried about the number of abortions in Poland, but stressed that he did not insist that the candidate's attitude to abortion should be the test of his fitness to stand.

The paper is headed by Mr Adam Michnik, an erstwhile political dissident and now a leading figure in Solidarity who is running for a seat in the next Parliament. Most of the staff come from the underground press, which has flourished in the eight years since the imposition of martial law, and they are backed by journalists with experience in the official media.

Like the official newspapers, the Gazeta also reported on Poland's copper miners' strike. Yesterday the stoppage, by some 20,000 miners in three mines near Legnica in south-west Poland, entered its fifth day. The stoppage is in support of a demand for a 50 per cent pay rise.

The authorities are offering a 30 per cent rise and Mr Mieczyslaw Wilczek, the Industry Minister, has refused strikers' demands to come and talk to them.

The strike committee is made up of 10 Solidarity members, seven from the official OPZZ Unions and 13 non-unionists and the stoppage does not have any official union backing.

● For the first time since Poland's foreign currency blackmarket was legalised in mid-March, a private company has opened a service offering to buy and sell Comecon currencies as well as US dollars and West German D-marks.

The Tebos, based in Warsaw's main railway station, was yesterday offering to pay Zl 3,600 for each dollar and Zl 260 per rouble.

● Adam Michnik (pictured right) holds up a copy of the first issue of the new paper.

# Vote in Lodz tests the Communist party's working class credentials

By John Lloyd

LODZ IS a little textile city 100km south of Warsaw with something of the aspect of Manchester around the time Engels, a prominent citizen, was subsidising Karl Marx with the sweat of his workers' brows.

It is the kind of town the Polish United Workers (Communist) Party needs to see as its own, because it has had an active working class for longer than most parts of Poland and was a citadel of late-19th century socialism: Josef Pilsudski, later the Polish dictator, was arrested there for illegal propaganda in 1901. Seventy years later the women of the Lodz textile works led strikes, as the Baltic shipyards were flexing their pre-Solidarity muscles. A decade later, the Lodz workers were as strong for Solidarity as anyone else.

It is, as the West European psephologist would say, a town the party must win in the national elections on June 4, if it is still to call itself the party of the working class.

But it probably will not, in the sense that its candidates will do badly in the elections for Poland's new Senate, whose seats are freely contested, and for the 35 per cent of the freely contested seats in the Lower House (Sejm). The remaining Sejm seats are reserved for the PUWP and its Democratic and Peasant party allies, to ensure a nominal victory.

One of the reasons the party is likely to do badly in Lodz is Dr Karol Styjski. He was district secretary for central Lodz until 1982 when his objections to martial law got him the sack from the provincial party committee. He took a job at Lodz University and built up enough popularity for the university party branch to propose him as candidate earlier this year.

The provincial party executive will decide today whether to approve him. But even if they do not, the fact that the cream of the party youth feel the need for a figure relatively uncompromised by its past reveals the deep shame felt in party circles.

Solidarity, thus, should have an easier run, and may sweep Lodz before it. But it has its splits, too, which ironically seem to stem from the town's militant traditions. Several old Solidarity activists, like Mr Andrzej Slovik, Mr Jerzy Kropivnick and Mr Grzegorz Palka, have broken from the official movement in favour of the new "Fighting Solidarity", branding the union's agreement with the Government following round-table talks as a "sellout".

Such splitting tendencies are not surprising, given that this is the first relatively free test of opinion in Poland since the war. It is momentous, of course, but messy and raucous, too. Mr Janusz Baranowski submitted himself to public test last Saturday when he set up a stall in the poor suburb of Srodmiescie to collect the 3,000 signatures he needs by tomorrow to stand as a candidate. He was brought up nearby, so believed he would do well.

He is also a local lad making good. Mr Baranowski, who is careful to say in his election address that he left the PUWP in 1980 because "he didn't agree with the status quo" began last year a private insurance company called Vesta, the first to challenge the state insurance monopoly, PZU. He offers the usual range of insurance, as well as less usual packages on inflation and AIDS. Vesta has advertised heavily, spread fast through Poland and done well already. But on Saturday, Mr Baranowski (46) was standing tieless in Srodmiescie, in the cold and rain, collecting signatures while two assistants played stirring music through a tinny amplifier.

An elderly lady with a voice which easily pierced the music said: "We've got enough poverty here, in God's name! I won't vote for anyone. I won't vote for anyone who changes his coat." "I'm not changing my coat" says Mr Baranowski, who looked as though he could use one.

He is a curious figure to Western eyes: a successful entrepreneur, who is standing as the peoples' friend, opposed to the party but also to Solidarity because of its inconsistencies: "They want wage indexation and an end to inflation: I want fair wages for good work."

If he gets through the first round on June 4, he may do well in the second on June 18. If he does make the Senate, he will join the growing numbers of pro-free marketeers who are the rebels with a cause which is for the moment popular.

# Sweden 'has failed to tackle low growth'

By Robert Taylor in Stockholm

THE Swedish government's recent fiscal proposals to cool down the overheated economy are not going to solve the country's long-term problem of low growth, according to the latest prognosis from Götabanken, the big Swedish bank, published yesterday.

"There is no correct remedy in the short run," said Mr Bjorn Rosengren, its chief economist.

In the view of Götabanken the financial restraint being proposed to reduce domestic demand has come a year too late. Moreover the suggestion of raising the already high level of indirect taxes and employers' labour costs is regarded as an old-fashioned Social Democratic solution for high wage settlements.

The emphasis ought to be on encouraging much more personal saving, argue Götabanken's economists.

They also call for higher levels of industrial investment to alleviate the problems caused by lack of production capacity, increased efficiency in the public sector, where productivity is not regarded as high enough, and measures to deal with the present shortage of labour through tax reforms and the more effective organisation of the public sector.

Götabanken argues that the proposals by Mr Kjell-Olof Feldt, the Finance Minister, will in the short term increase the rate of inflation and production costs. High interest rates will also continue at least until this autumn, it asserts.

In its detailed forecasts the bank believes there will be a restraint in private consumption in Sweden over the next two years with only an increase of 1.1 per cent in 1989 and 0.5 per cent in 1990. The annual growth rate is expected to be only 1.6 per cent this year and down to a 0.7 per cent rise next year.

Industrial production is predicted to stagnate with a 1989 increase of 2 per cent being followed in 1990 by an increase of only 0.8 per cent.

A slump in the rate of investment is also forecast. An increase of 4 per cent in gross investment this year will be followed by zero investment growth in 1990.

The balance of payments deficit is predicted to be SKr 21bn (£2bn) in 1989 and SKr 20bn next year. Only a small rise in unemployment is expected – up from 1.8 per cent this year to 2 per cent in 1990.

# Milosevic is elected as President of Serbia

By Judy Dempsey in Vienna

SERBIA'S nationalist party leader, Mr Slobodan Milosevic, was yesterday elected President of the republic, a move likely to consolidate his power.

Mr Milosevic, who spearheaded changes in the Serbian and federal constitutions intended to give Serbia greater power in its two provinces of Kosovo and Vojvodina, will relinquish his post as party leader.

However, he will be succeeded by Mr Bogdan Trifunovic, a close ally, who will continue to promote policies of greater political centralisation.

These policies have already led to bitter disputes between Serbia and Slovenia and Croatia, whose leaderships argue that Mr Milosevic is attempting to make Serbia the dominant political force in the Yugoslav federation.

As President of the republic, Mr Milosevic will be able to monitor at close hand policies which Mr Ante Markovic, the country's new Prime Minister, aims to implement. These include sweeping economic reforms aimed at reducing inflation, now running at 260 per cent a year as well as attracting foreign investments through a system of incentives.

# Neo-fascist poll success may rekindle Alpine feud

By John Wyles in Rome

THE bitter and occasionally bloody squabble between the German and Italian speaking communities in Alpine Italy may take a turn for the worse following an unprecedented success by the Italian neo-fascists in elections for the Bolzano city council.

Last summer's bombing campaign by German-speaking extremists has given way to a period of relative tranquillity in which the Süd Tirol Volks partei (SVP) has extended olive branches to the Italian minority, which in Bolzano is outnumbered two to-one.

The SVP is bound to regard the neo-fascists' (MSI) success in polling 27.1 per cent of the votes on Sunday as a poor reward for its new moderation. The MSI vote, on the other hand, will be widely seen as a closing of Italian ranks against both terrorism and autonomy measures which are steadily forcing the Italian minority to cede their political and economic control of the Alto Adige region.

Having polled 26.7 per cent in last year's regional elections and 25.7 per cent in Bolzano at the June 1987 general election, the MSI has emerged as the largest single party on the city's council and is in a strong position to press its claim to the post of mayor.

The SVP held its share of the vote at 19.5 per cent. Despite the very special local circumstances, some politicians were quick yesterday to argue that the fall in the Socialist vote to 7.4 per cent from 9 per cent last year and in the Christian Democrat share from 17.2 per cent to 16.9 per cent, reflected the unpopularity of the national governing coalition.

The other clear victors in Bolzano were the Greens who polled 12.1 per cent against 11 per cent last year and only 6.2 per cent in 1987.

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# Military leaders from East and West to meet

By David White, Defence Correspondent

UNPRECEDENTED contacts between the top military commanders of Nato and the Warsaw Pact are expected to take place in London next week during an unofficial visit by General Pyotr Lushev, Commander-in-chief of the Warsaw Pact Joint Armed Forces.

Gen Lushev, appointed to the job three months ago, is due to give the opening address to the annual conference on May 18 of the Royal United Services Institute for Defence Studies (RUSI). Other scheduled speakers include Gen John Galvin, Nato's supreme commander in Europe, and Gen Wolfgang Altenburg, chairman of Nato's military committee.

It will be the first visit to the West by Gen Lushev, who is considered closer to President Mikhail Gorbachev's reform policies than his predecessor, Marshal Viktor Kulikov.

The visit, however, will be regarded with some reservations in Nato political spheres, for fear of Soviet attempts to undermine the alliance's 40th anniversary summit in Brussels at the end of the month.

Moscow's decision to send Gen Lushev is seen as a demonstration of its change of line about the potential Nato threat. Observers saw the choice as also reflecting an effort by the Soviet authorities to appease the military by ensuring that it is seen to play a part in new initiatives. Gen Lushev, who is also a Deputy Defence Minister, is one of a small group of military men to have retained places in the Supreme Soviet and on the Communist party's central committee.

RUSI's director, Group Captain David Bolton, is meanwhile trying to promote the idea of a "risk centre" based in Berlin aimed at averting a sudden build-up in military tension between the two sides.

● The Soviet Union would respond in kind to any Nato decision to upgrade short-range nuclear weapons in Europe, the Communist party daily newspaper, Pravda, warned yesterday.

The threat was a more explicit version of a statement by Mr Gorbachev during his visit to the UK last month, when he said that the Soviet Union would not modernise its nuclear weapons "unless we are made to."

This position is greeted with some disdain by US and British officials, who claim that Moscow has continued to modernise its systems. Although the most modern short-range missile, the SS-21, is not new, Western experts claim it is 10 years ahead of its Nato equivalent, the Lance, which is at the centre of Nato's internal clash about modernisation needs.

# W German trade surplus up by 44%

By Andrew Fisher in Frankfurt

WEST GERMANY'S trade surplus rose 44 per cent in the first quarter to DM36bn (£11.3bn). Economists expect the surplus for the year to reach a record DM140bn against DM128bn for 1988.

March exports reached a record DM55.15bn – just exceeding the previous high last December – and were 10 per cent higher than in the same month last year. Imports, however, were only 2 per cent more at DM42.3bn, making for a March surplus of DM12.8bn (DM8.6bn in March, 1988). In the first quarter, exports advanced by 22 per cent and imports by 17 per cent.

Sales to the rest of Western Europe have continued to benefit from the surge in demand for capital goods partly resulting from preparations for the post-1992 EC single market.

The buoyant export performance also provided further evidence of the strength of the economy, following new order figures for March released last week and upbeat company profit forecasts.

The current account surplus was DM8.9bn in March, and DM28.7bn in the first three months. It is expected to reach around DM90bn for the year against last year's DM85bn.

# Former minister survives Athens bomb attack

By Andriana Ierodiaconou in Athens

A LEADING Greek Socialist associated with the Koskotas affair was injured in a terrorist bomb blast in Athens yesterday.

Mr George Petsos, a former Public Order Minister, was injured in the face, chest and arms when a parked vehicle booby-trapped with explosives blew up alongside his own chauffeur-driven car yesterday morning. The powerful explosion was apparently set off by remote control.

He, his driver and another passenger were later reported to be in a satisfactory condition in hospital.

Yesterday's method of attack has been used several times in the past by the "November 17" terrorist group. The group, which has condemned the Koskotas scandal in recent manifestos, has assassinated a series of American officials and Greeks since the mid-1970s.

The scandal involving Mr George Koskotas, the former banker and press baron accused of fraud, has been rocking the Greek Socialist Government since last autumn. There was speculation here yesterday on the possible impact of the attack on the Government's request for his extradition from the US, where he fled and was arrested last November. Mr Koskotas has argued that his life would be in danger from terrorists if he returned to Greece.

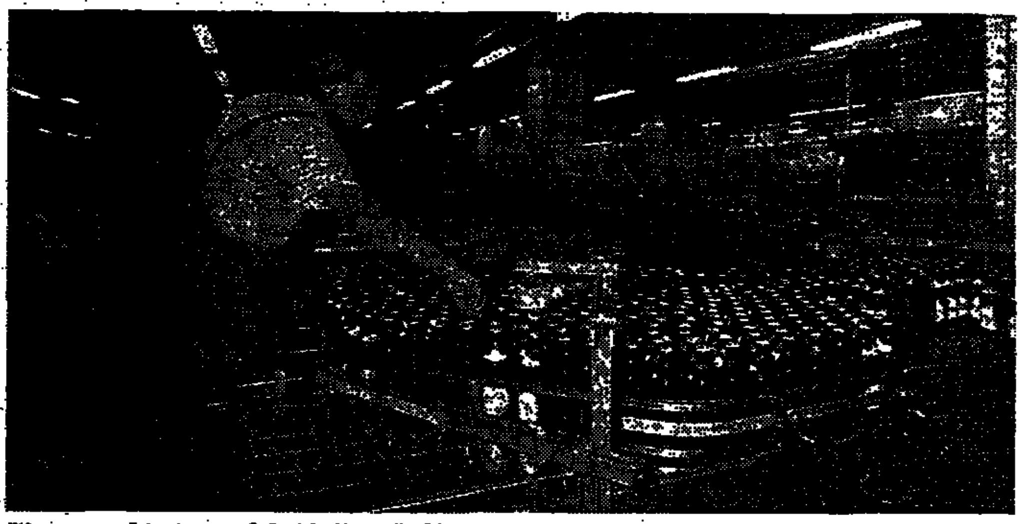
Mr Petsos was removed from the cabinet last March in a reshuffle designed to defuse criticism of the Government over the Koskotas affair.

The former minister, who is alleged to have had frequent contacts with the ex-banker, blamed the press for the attack against him. "I became a terrorist target thanks to the clearly untrue and libellous publications against me in a section of the press," he said in hospital.

● Greece and the US started new talks yesterday on the future of American bases in Greece, Reuter reports from Athens. It will be the final session before Greek elections on June 18, a government spokesman said.

Negotiations on a new defence and economic co-operation agreement have been stalled almost from their outset in November 1987.

# Foreign brewers show no taste yet for German purity



It's pure and tastes good, but is it profitable?

THINK of West Germany and your thoughts may turn to shady beer gardens in Bavaria, the raucous fun of the annual Oktoberfest drinking jamboree, and glasses filled with a foaming liquid.

For all that, beer is a serious matter in Germany. Brewed under a purity law (*Reinheitsgebot*) which goes back some five centuries, it has traditionally been regarded almost as a necessity of life. Tampering with the product by including chemicals or other additives is anathema to Germans and to those who enjoy German beer.

Yet two years ago, the Germans had to bow to European Community pressure and agree to allow in foreign beers, whether or not they conformed to the law stemming from the decree of a Bavarian ruler in the early 16th century on how beer should be brewed.

**The market the EC worked so hard to open is stagnant and characterised by overcapacity and tough competition, writes Andrew Fisher**

So has there been a flood of imported beers into the Federal Republic, the country with the world's highest per capita consumption? Hardly. In fact, not only have no new foreign beers appeared on the market since the European Court made its judgment. Brewers have also been pleasantly surprised to find that the heated discussion about allowing in other beers has highlighted the attractions of German brews.

"If a foreign company were to claim that beer not brewed under the purity law tasted better than German beer, it would have a big problem," says Mr Wolfgang Burgard, a director of Dortmunder Actien-Brauerei (DAB). However, he added: "Foreign breweries are certainly good enough to brew products which conform to the purity law."

The question is whether they want to, or think it worthwhile. Certainly, it is possible to buy beers such as Guinness, Bass, Carlsberg, Tuborg, Czech-brewed Budweiser and Pilsener Urquell, and others in Germany. Japanese restaurants even serve Kirin, also brewed in accordance with the purity law, which lays down that beer may only contain hops, barley malt, water and yeast.

Although foreign producers are expected to try harder to penetrate the German market, they face three main obstacles: the high quality of German beer itself and the tenacious loyalties of those who drink it; the fragmented nature of the market, with some 1,160 breweries serving a thirsty public with around 4,000 different beers; and the low returns, in large part a result of the market's structure.

"You mustn't forget that the German beer drinker is very conservative," notes Mr Burgard. According to the German Brewers' Association, 90 per cent of German breweries sell their product within a radius of less than 30 miles.

Financially, however, they are often far from robust. "The low returns have atomised the market," reckons Mr Ulrich Opherk, general manager of the association. "In fact, there is no real national market at all." The average output per brewery in Germany is less than 80,000 hectolitres, an amount dwarfed by production of individual breweries in other European countries, not to mention the US.

It is the absence of mass beer production that gives the German market its special character, while also making it hard to earn a decent profit. A number of breweries rely on restaurant, soft drink, or property interests to bring in the earnings. Moreover, although the Germans are the world's champion beer drinkers, downing an average of 144 litres a year per person – in Bavaria, it is 220 – the total market is declining.

Beer production reached a peak in 1976 at 96m hectolitres, a figure which had dwindled to 93m hectolitres last year. As people have become more conscious of fitness and health, they have tended to drink less beer and more mineral water and soft drinks. "The beer industry has its back to the wall to some extent," says Mr Gerhard Lange, sales director of Binding Brauerei. "Thus the competition amounts to trying to take away business from others."

So breweries have tried to elevate beer's image. Companies advertise their beers in elegant glasses, served in elegant surroundings, promoting quality and individuality. More alcohol-free or alcohol-reduced beer is also on offer, by far the most successful being Clausthaler, made by Frankfurt-based Binding. Some north German companies such as Bitburger and Warsteiner have succeeded beyond their local areas by sophisticated marketing of their premium Pils brands.

From Bavaria, the distinctively-flavoured Weizenbier (wheat beer), brewed with malt from both barley and wheat and served in tall, wide-brimmed glasses, has also become more popular outside its home state. "As the economy has matured, people's tastes have become more differentiated," says Mr Lange. As well as Clausthaler, with about half the German non-alcoholic beer market, Binding produces Pilsener, Export, Weizen, and dark beers.

Increasingly popular are light beers. Though overshadowed by normal strength beers, they are being offered more widely in Germany as an alternative to total abstinence. Paulaner-Salvator-Thomasbräu, a big Munich brewing concern, has just introduced a beer with only three-fifths of the normal alcohol content – most German beers contain about 4 per cent alcohol.

But developing such beers costs money. It takes a long time for a brewery to come up with a light or alcohol-free beer which tastes just like the real thing and is brewed to the country's strict purity standards. Binding worked on Clausthaler for three years. "We wanted a proper tasting product," says Mr Lange. Even so, he admits, "we did not expect it to be so successful."

With more than a thousand breweries elbowing each other for a profitable slice of a gradually shrinking market, the scope for foreign incursions might seem limited. Imports make up a mere 1.5 per cent of the market. But Germany still presents a huge potential to expansion-minded groups and German executives do not expect foreign competition to stand idly by.

"Why," asks DAB's Mr Burgard, "should foreigners go into a stagnating market with over-capacity and competition which is already extremely tough?" Entry would be hard, not the least of the difficulties being distribution. "But I would not say it is nonsense, as Germany is the world's second-biggest beer market after the US."

Recent foreign activities have included the purchases by Denmark's Carlsberg/Tuborg of Hannen Brauerei in Mönchengladbach and the acquisition by Anheuser-Busch of a Bavarian hop farm. Anheuser's possible ambitions, about which it is coy, are widely discussed in the German industry, where it is speculated that the big US group wants to sign a deal with Czechoslovakia's Budweiser enabling it to brew and sell a high-quality beer in Germany under the Budweiser name, which it uses in the US but may not use in the Federal Republic.

In the end, it is still reputation and quality that count with choosy German beer drinkers rather than marketing. Certainly, reckons Mr Friedrich Schneider, chairman of Paulaner-Salvator, "the number of German breweries will decline further". Similarly, foreign efforts to attack the market will be stepped up. "They can come," he asserts. "There will be a powerful tussle in the market. Each new competitor will just intensify the competition that is already here."

OVERSEAS NEWS

# Sunshine thirteen months a year but no peace for Ethiopia

**Julian Ozanne**, recently in Addis Ababa, looks at the cost of civil war in Ethiopia and its economic repercussions

To the few adventurous tourists who are prepared to brave long delays getting travel permits and the harrowing presence of an official minder Ethiopia, which still follows the Gregorian calendar, advertises itself as "13 months of sunshine".

To the country's increasingly impoverished peasants and urban slum dwellers this slogan has been bitterly transformed into:"13 months of sunshine, 11 months of pay".

Last year emergency supplementary taxes were levied to fuel the rocketing costs of the civil wars in Eritrea and Tigray. All waged-employees had to give up a month's salary and a lump sum of Birr 40 was imposed on peasant households.

According to local residents over-taxed peasants and workers are growing fed up with the economic dictates of the Marxist government and with the periodic forced conscription drives.

The humiliating defeat of the Ethiopian army by rebels two months ago at Inde Selaisse and the subsequent evacuation of Makele, the provincial capital of Tigray, has intensified pressure on the military regime of President Mengistu Haile Mariam.

Western military analysts say there is growing frustration in the army with military reverses. In the last two months there has been nervous reshuffling of posts at the middle officer level and a faction in the army has started distributing pamphlets critical of the leadership. The rise in popular discontent comes at a time when Ethiopia's main backer, the Soviet Union, is turning the screws on the regime.

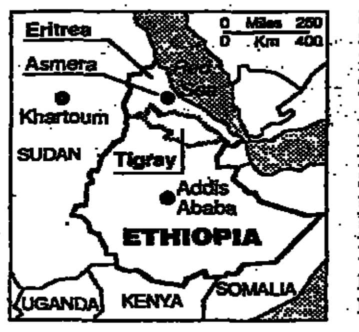
Since revolutionary military officers overthrew the feudal autocracy of Emperor Haile Selaisse 15 years ago and set up a Marxist-Leninist state, the Soviets have poured an estimated $5bn-$6bn into the Ethiopian war machine.

Apart from a loyal ideological disciple and a theorectical geo-political influence in the Horn of Africa they have had little in return for their investment. And, as in Afghanistan and Angola, they are anxious to withdraw from shoring up a military conflict which is unwinnable on the battlefield.

According to Western diplomats President Mengistu has been told by Moscow that he must try harder to reach a political solution with the rebels. The Soviets have also refused to make any new promises of military support after the present arms contracts run out in 1990 and are reluctant to continue rescheduling Ethiopia's debts.

"Without the promise of future soviet arms there is a sword of Damacles waiting to be drawn from its scabbard," said one Western diplomat.

In the absence of massive Soviet deliveries of arms it would be difficult for the government to maintain its military machine, the largest standing army in sub-Saharan Africa. Alternative suppliers,




like North Korea, China and Zimbabwe are being anxiously canvassed for concessionary arms deals. Re-establishing relations with Israel, a substantial supporter of Ethiopia before the revolution, is also being mooted as a possibility. But the critical shortage of foreign exchange in the economy would prove a serious limitation to seeking new sources of military hardware.

It is unlikely that Moscow is seriously considering abandoning Ethiopia but to appease the Soviets President Mengistu has started making overtures to the rebels. He has put pressure on the Sudan's Peoples Liberation Movement, which operates out of Ethiopia, to negotiate with the Khartoum government in the hope of getting the Sudanese to exert pressure on the Eritreans and their Arab backers. Talks have been held in Khartoum with minor Eritrean rebel groupings. And Mengistu has put forward a plan of regional autonomy.

But the problem is that the civil wars, which in the case of Eritrea pre-date the current regime some 13 years, maybe intractable.

The Tigrayans insist that there can be no settlement without the overthrow of Mengistu, the Eritreans want complete independence from Addis Ababa.

Both Western and East Bloc diplomats have little time for the rigid demands or the communist political leanings of the rebels.

"We want to solve the war in an honourable way but national unity and integrity is non-negotiable," said Comrade Tsefaye Dinka, Deputy Prime Minister. "There is no disagreement between us, the Soviet Union and most Western governments on this."

In a rare flash of Gorbachev-style "glasnost" President Mengistu announced last year that the war was draining the economy of 50 per cent of the regular budget of Birr 1.6bn ($765m) in 1987-88. Expenditure on the meagre level of social service provision has been inadequate to meet the demands of a rapidly expanding population.

These problems are compounded by the very low level of foreign development assistance Ethiopia receives which, at about an average of $11 per capita, is one of the lowest in the Third World.

As the Soviets step up the pressure and the economy continues to spiral downwards the government has turned to the West. Encouraging signals are being made about real economic reform and ministers have been dispatched to several Western capitals to argue Ethiopia's case. But the war remains a huge obstacle to increased international financial support.

Privately many Western diplomats say that a solution is only foreseeable with a new leadership in Addis Ababa. There is too little trust and credibility on both sides. But, although there are signs of increasing discontent with the regime, it is unlikely that they pose a serious challenge to President Mengistu and his entrenched political system with its myriad arms of oppressive control. Much more likely is change from within.

So far the military cabal around the President has displayed no outwards signs of a willingness to move. But as the Soviets begin to break ranks with Mengistu and the war situation deteriorates a door is being opened. One more serious military setback could be decisive.

## EC hits out at Iranian leader's call for terror

By **David Buchan** in Brussels

THE 12 member countries of the European Community yesterday jointly branded as "totally unacceptable" last week's call by Mr Ali Akbar Hashemi Rafsanjani, the speaker of Iran's parliament, for Palestinians to kill Westerners in their quest for a homeland.

But the joint statement of the Twelve "noted with satisfaction the total rejection of these [Mr Rafsanjani's] declarations by the highest leaders of the Palestine Liberation Organisation".

By rejecting the Iranian leader's call on Palestinians to avenge each one of their casualties at the hands of Israeli forces by killing five Americans, Britons, or Frenchmen, Palestinian leaders had confirmed their desire to get recognition for Palestinian rights "by peaceful means", the EC statement said.

The Twelve said they would not spare any effort in the cause of "a just, lasting, and global" settlement of the Arab-Israeli conflict.

The Community's strongly-worded condemnation said: "Yet again, one of the most senior Iranian leaders has violated the most elementary principles and obligations governing relations between sovereign states, threatening peaceful co-existence between nations."

The relative swiftness of the Community's co-ordinated response reflected growing exasperation with Iran, whose supreme leader, Ayatollah Khomeini, had earlier this year incited people to murder Mr Salman Rushdie, the British author, for slighting Islam in his book, the Satanic Verses.

In February, all 12 EC states withdrew their ambassadors from Tehran in protest, while the UK went on virtually to break relations with Iran. Since then, most EC states, with the notable exception of the UK, had sent their ambassadors back to the Iranian capital.

# Nigeria's jovial general pays call on his champion

**Michael Holman** previews visit of Babangida, African torch-bearer of Thatcher's market philosophy

IT MAY seem a somewhat unlikely friendship: the African general whose joviality belies the military muscle that brought him to power in 1985, and the British Prime Minister, personification of market forces and opponent of tougher sanctions against South Africa.

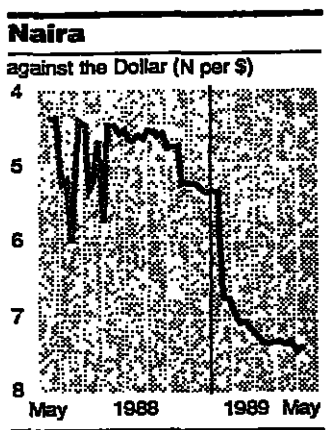
Yet when President Ibrahim Babangida of Nigeria begins his state visit to Britain today he will be warmly welcomed by Mrs Margaret Thatcher.

In her eyes he stands for the radical reforms Africa needs if the continent's economic malaise is to be cured. And on the balance sheet of UK Ltd is an export market worth nearly £400m last year, with British investment in Nigeria valued at more than £1bn.

For President Babangida's part, admiration for Mrs Thatcher seems unbounded. "A wonderful woman ... probably one of the greatest leaders we have in the world," he told a visiting journalist last week, adding: "We have identical views on economics."

The stage seems set, then, for a meeting of minds – with the exception of the South African question. But the two leaders agreed to differ over sanctions when they first met nearly 18 months ago, and it is unlikely to be a cause of friction in London.

What may, however, give




Mrs Thatcher cause for concern are the growing difficulties of an administration which she and her advisers have gone to great lengths to support.

An overvalued naira, the Nigerian currency, is undermining the country's economic recovery programme; corruption is increasing, in particular in the armed forces; and political tensions are rising, caused in part by a decade of falling living standards, and in part by an undercurrent of religious friction between the largely Moslem north and predominantly Christian south.

It is a combination that could jeopardise Nigeria's phased return to civilian rule in 1992, which took a step further last week with the lifting of a ban on politics.

Since President Babangida took power in a bloodless coup, Mrs Thatcher has offered both personal and practical support. Her letters of encouragement to the president have been backed by behind-the-scenes assistance.

British officials have worked to secure Nigeria sympathetic treatment by the International Monetary Fund (IMF) and the World Bank, backed rescheduling requests to the Paris Club of government creditors, and – indirectly – the London Club of commercial banks. And Britain hosted an informal donors' conference in London in January this year which raised $600m in aid pledges.

The assistance has been vital for a country which has seen a dramatic change in its fortunes over the past 20 years.

In 1970, when exports were largely agricultural and the oil boom was yet to come, foreign exchange earnings were $1.2bn. They soared to nearly $26bn in 1980. By last year they had fallen to $7bn, and the country's external debt had reached $30bn.

Nigeria's response to its crisis was belated. But in 1986 President Babangida launched one of the most far-reaching economic reform programmes in Africa, endorsed by the IMF and World Bank. It included a step-by-step devaluation which has seen the naira fall from 1.4 to the dollar in September 1986 to 7.4, a privatisation programme which will affect more than 90 companies, and the ending of a notoriously corrupt import licensing system.

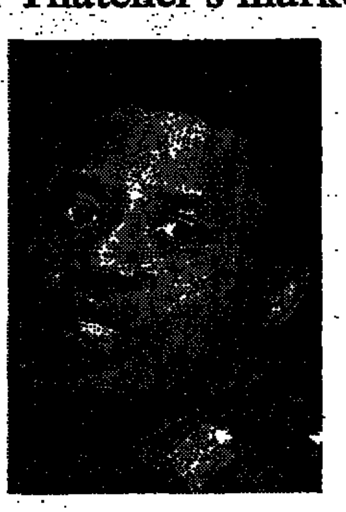
A reflationary budget in January 1988, however, cost the backing of the IMF, which was not regained until a year later, when a revised adjustment plan won fund approval.

IMF officials are due to make a further visit to Lagos before concluding their review of Nigeria's performance in the first quarter of this year. This assessment will be carefully read by the World Bank, which has yet to release the second half of a $500m Trade and Investment Policy Loan. And the IMF verdict is eagerly awaited by commercial bank lenders, which are attempting to resolve a dispute with Nigeria over a payment due following a $5bn rescheduling deal agreed late last year.

The good news for Nigeria is that the adjustment plan's forecast of the price of oil – the country's main export – has proved too low.

The 1989 figures for the plan expected $14.50 a barrel. The average so far this year is around $18. Every $1 increase brings in an extra $400m a year at production of 1.37m barrels a day.

Yet a fundamental concern



Babangida: currency problems

remains unresolved: the exchange rate.

In theory Nigeria introduced a market system at the start of the year – a key condition to renewed IMF approval of the adjustment programme.

An IMF document makes clear what was expected: "The authorities are committed to using only monetary and fiscal policies to influence developments in the exchange rate market, and do not intend to intervene in the exchange market in order to prevent the exchange rate from seeking its own level or to fix the rate at an unrealistic level".

In practice, however, government continues to intervene. The official value of the US dollar is 7.4 naira, compared with 14 naira on the black market. The rate determined by the central bank is based on what the Government assesses to be politically tolerable.

However, in the opinion of some economists, government's reluctance to adopt a market-determined exchange rate is undermining the structural adjustment programme.

The over-valued naira deters foreign investment, encourages illicit deals in agricultural exports, and has opened up a new area of corruption. Many recently established banks, usually with a military patron in the background, illegally sell at a premium the foreign currency they have been allocated in the daily auction conducted by the central bank.

In the words of the IMF document: "The maintenance of an adequate exchange rate policy is seen as a cornerstone of the programme."

Mrs Thatcher and President Babangida will no doubt discover in their talks this week whether they share an "identical view" on the application of this precept to the Nigerian economy.

## Agreement on $100m for Lagos

By **Michael Holman**

NIGERIA and Britain were yesterday due to sign an agreement in Lagos allowing for the disbursement of a $100m (£60m) grant offered to Lagos last December.

The planned signing comes on the eve of President Ibrahim Babangida's state visit to London.

It will be seen as an expression of British confidence in Nigeria's commitment to its economic reform programme, launched in September 1986.

The grant, which will help fill Nigeria's balance of payments gap, was first announced by Mr Nigel Lawson, Chancellor of the Exchequer, at a London conference on developing country debt.

Mr Lawson told the conference it was "imperative that Nigeria, like other countries trying to conquer their debt problems, should persevere with domestic policy reform. Without that no amount of overseas assistance will be effective."

The grant was conditional on Nigeria winning International Monetary Fund backing for its economic programme. Soon after the offer, Nigeria secured the IMF's endorsement, which had lapsed a year earlier.

## Pressure on Ito to take premiership

By **Stefan Wagstyl** in Tokyo

SENIOR Japanese politicians yesterday entered their third week of talks to find a successor to Mr Noboru Takeshita, the Prime Minister, who has promised to resign over his involvement in the Recruit financial scandal.

They concentrated their efforts on trying to persuade Mr Masayoshi Ito, a 75-year-old former foreign minister who was also briefly prime minister in 1980 when he stepped in for a colleague who died in office.

Mr Ito, as before, insisted that illness prevented him taking the job. Nevertheless members of the ruling Liberal Democratic Party believe he will eventually accept office – on the right terms.

Mr Ito, dubbed the Mr Clean of Japanese politics, is said by other politicians to be holding out for three reasons. First, by emphasising his reluctance to take office he hopes to pave the way to an early departure from the prime ministership.

Next, Mr Ito is believed to want to secure from party leaders firm promises that they will back plans for radical political reform. He is also thought to be trying to win freedom in selecting a reform-minded cabinet.

Mr Shintaro Abe, the LDP secretary general, plans to ask Mr Ito formally to accept the prime ministership tomorrow. Mr Abe said yesterday it would be good to have the matter settled this week. Three cabinet ministers have already resigned over the affair, which concerns the distribution of money and cut-price shares to politicians and other influential people by Recruit, a business information group.

Mr Takeshita intends to quit once a much-delayed 1989-90 budget bill is passed. The bill has completed a stormy passage through the Diet's lower house and is now before the upper house, where opposition parties are continuing to try to block it.

Meanwhile, it emerged yesterday that Mr Katsuya Ikeda, a member of the opposition Komei (Clean Government) party, received Y14m ($107,000) from Recruit in political donations between 1985 and 1987. This is in addition to 5,000 shares in Recruit Cosmos, a subsidiary of Recruit, which were sold to Mr Ikeda's brother who made a profit of Y10m.

Mr Ikeda is alleged to have helped Recruit by asking well-aimed questions in the Diet.

Recruit was concerned about the increasing willingness among Japanese employers to change the way they approached potential graduate recruits.

A Sudanese woman waits for her maize ration at a United Nations relief camp in Torit.

# Sudan rebels reject truce plan

SUDANESE rebels yesterday rejected the Government's offer to set up a joint committee to enforce a ceasefire proposed last week, Reuter reports from Addis Ababa.

Responding to the proposal, Mr Nehial Deng, spokesman for the Sudan People's Liberation Army (SPLA), said the rebels would meet the Government only to implement a broader peace pact they reached last November with one of the parties in Sudan's governing coalition.

The SPLA announced a unilateral, one-month ceasefire a week ago, and on Saturday Prime Minister Sadeq al-Mahdi offered to end the country's state of emergency and establish a joint committee to enforce the truce.

"As long as the provisions of the [November] peace initiatives are not implemented, it is premature to talk about a joint technical military committee," Mr Nehial said.

The November agreement between the SPLA and leaders of the Democratic Unionist Party, the second largest in the government, calls for a freeze on Khartoum's plans to implement Islamic Sharia law, an end to the state of emergency, a constitutional convention and the abrogation of military pacts with Libya and Egypt.

# Scientists win A$390m grant backing

By **Chris Sherwell** in Sydney

AUSTRALIA'S scientific establishment, hamstrung by funding cuts through the 1980s, won a significant victory yesterday when the Canberra government announced an A$390m ($324m) package of extra financial support over five years.

The decision follows increasingly vocal complaints from scientists in universities and CSIRO, the country's largest research organisation. On more than one occasion Mr Barry Jones, the minister responsible for science, has come close to resigning.

Although the overall amount is as much symbolic as substantial, the package reflects a recognition that past cuts went too far. At a time when most government-funded activities face further spending reductions in the next budget, science's position looks like being preserved.

In a related move, the government announced a four-year extension in the 150 per cent tax deduction given to companies for research and development spending. This was due to end in 1991 after five years' operation, but will now continue until 1993 and then be phased out by 1995.

The bulk of the additional funding of the package – A$175m – will go to the university sector, reflecting concern about the damage already done at the training level. Another A$51m will go on post-graduate awards.

CSIRO will receive A$90m, comprising A$14m in the financial year beginning in July and A$19m in each of the following years. This will take funding back to the levels of two years ago, and means planned research staff cuts – the focus of recent controversy over science funding – will be limited.

"The statement is a turning point for Australian science and is the basis for long-term growth," Dr Keith Boardman, CSIRO's chief executive, said yesterday.

Australia's funding for research has historically been low by developed country standards, at just over 1 per cent of gross domestic product. This is between a half and a third of Japanese and US levels.

## Israelis stone Arab cars over soldier's death

MORE THAN 50 Israelis hurled stones at Arab cars outside the southern town of Ashdod yesterday after the funeral of a soldier believed killed by Palestinian kidnappers, Reuter reports from Ashdod, Israel.

Troops barred the 1.7m Arabs of the occupied West Bank and Gaza Strip from entering Israel for two days and confined Gaza residents to their homes indefinitely from yesterday evening. "We are closing the areas to prevent uprising activities," an army spokesman said.

### Beirut fighting

Artillery battles resumed across Beirut yesterday after a brief lull in merciless bombardments which shattered an Arab League ceasefire, Reuter reports from Beirut.

Security sources said scores of shells slammed into residential areas of Lebanon's Christian enclave. Meanwhile, Mr Javier Perez de Cuellar, UN Secretary-General offered to help to re-establish a ceasefire in Beirut.

### Africa airline formed

Zambia, Uganda and Tanzania have agreed to set up a joint passenger airline to serve African and intercontinental routes, the Zambian Transport Ministry said yesterday, Reuter writes from Lusaka.

Transport ministers of the three nations signed an agreement on Friday to create the line, which will be called African Joint Air Services (AJAS) and based in Lusaka.

### Tibet reopened

China has reopened Tibet to foreign tour groups, a travel agency official said yesterday, AP reports. The official said that from last Thursday tour groups were allowed to entered Tibet from Chengdu, capital of China's Sichuan province.

### Namibian clash

Two Namibian nationalists have been killed in a clash with South African-led security forces in Kaokoland, near the Angolan border, a spokesman for Pretoria's senior representative in Namibia said, Reuter reports from Windhoek.

## Indian trade deficit soars despite growth in exports

By **K.K. Sharma** in New Delhi

INDIA'S trade deficit for the 12 months to the end of March soared to Rs 74.12bn (£4.76bn), well above the Rs 66.24bn gap the previous year. The deficit increased despite a 29 per cent growth in exports, which was insufficient to finance the larger rise in imports.

The rising deficit is a major cause of the country's balance of payments problems, which are putting the Government under pressure to reduce imports. The deficit is large in rupee terms because of the rapid depreciation of the Indian currency. In rupee terms the deficit has risen by 11.9 per cent. In dollar terms, however, it increased by a nominal 0.2 per cent and actually fell by 0.5 per cent in terms of SDRs.

The figures for the year were announced by Mr Dinesh Singh, Minister for Commerce, who said exports in 1988-89 rose to Rs 202.81bn, compared to Rs 157.19bn in the previous year.

In terms of dollars, the rise was an impressive 15.5 per cent. Imports, on the other hand, rose by 23.9 per cent to Rs 276.93bn from Rs 223.43bn in the previous year. In dollar terms, the rise is 11 per cent.

Mr Singh said prospects for exports this year were "very good," although the Government has still to fix a target. Last year's growth, he claimed, was due to the Government's export promotion measures which has led to a significant rise in sales abroad of manufactured goods. This showed the country was moving away from traditional primary exports.

The main reasons for the export rise, he said, were availability of capital goods, components and raw materials at international prices. He also cited incentives to exporters and a supportive fiscal and exchange rate policy.

## Sihanouk pins hopes on Paris peace conference

By **Roger Matthews** in Bangkok

PRINCE Norodom Sihanouk, the Cambodian resistance leader, believes a full international peace conference hosted by France in August may be the best hope of preventing renewed civil war in his country after Vietnamese troops pull out at the end of September.

The prince was pessimistic yesterday that the remaining problems between the warring Cambodian factions will be resolved during their talks, due to open in Paris on July 25.

Despite the "tremendous progress" claimed by Prince Sihanouk in his talks last week with Mr Hun Sen, the Vietnamese-backed Prime Minister of Cambodia, there is still no agreement about the future role of the Khmer Rouge, who yesterday ruled out suggestions of a ceasefire before the Vietnamese withdrawal.

Mr Khieu Samphan, the Khmer Rouge leader, said yesterday that a ceasefire would serve only the interests of the Vietnamese and the puppet regime which it sustained in Phnom Penh.

The aim of the Paris conference in August would be to decide on the composition of an international force to monitor the Vietnamese withdrawal, ensure that all the factions to the conflict adhered to agreements, and stop fresh hostilities.

Speaking at a guerrilla camp on the Thai-Cambodian border, Prince Sihanouk said his forces would stop all military action the moment the occupying Vietnamese forces left.

However, he seemed more equivocal about the composition of an interim army which would initially maintain order in the country. According to an agreement with Mr Hun Sen last week, it appeared the Prince could accept the exclusion of the Khmer Rouge. Yesterday he was again talking about a quadripartite force which would include the Khmer Rouge.

## China's jobless figures 'set to nearly double'

CHINA'S unemployment rate will nearly double this year as more job seekers compete for fewer jobs, an official daily newspaper said yesterday, AP reports from Peking.

The official unemployment rate will rise from 2 per cent last year to about 3.5 per cent in 1989, the China Daily said, quoting Xi Zhongsheng of the State Commission for Restructuring the Economy.

Xi said there would be 10m people looking for work this year, but only 5m jobs guaranteed by the state. Most new job seekers are school graduates, demobilised servicemen, farmers looking for factory work and laid-off workers.

Jobs are particularly scarce this year because the government, to combat inflation and too-rapid economic growth, has canceled or suspended thousands of construction projects and cut off credit for new investment.

Factory managers have been given more authority to hire and fire workers, and have been encouraged to cut staff to increase efficiency.

## AIDS sufferers sue government

By **Robert Thomson** in Tokyo

TWO Japanese haemophiliacs who claim to have contracted AIDS from contaminated blood products filed a Y230m (£1m) suit yesterday against two pharmaceutical companies and the Japanese Government for failing to counter the dangers of imported blood products.

The action, the first of its kind in Japan, was brought against Green Cross of Osaka, Baxter of Tokyo and the Government by the men, who allege negligence by all three parties and who lodged legal documents yesterday with the Osaka District Court.

The two men claim to have been infected by blood products from the two companies in October 1985. They say the products came from US blood banks, and argue that the government, by that time, should have known the dangers of the virus and required preventive treatment of blood imports.

# INFAMOUS LAST WORDS

***Why do forecasters so often seem to get it wrong? Is there any hope for the nation's crystal gazers? City analyst Bill Martin, Chief UK Economist at UBS Phillips & Drew, discovers a source of forecasts that over the years has proved both timely and accurate. City pundits and government gurus, he suggests, would do well to turn their attention to BAA's centre for research and planning.***

Who'd be a forecaster? Exude the faintest hint of gloom and the Chancellor dismisses you as a 'teenage scribbler.'

The least whiff of optimism and along comes an 'inflationary blip' or a US budget deficit and – presto! – it's back to the analyst's couch.

Crystal gazing is a high risk profession.

The date 6th August 1987 will forever be graven in the memory of a friend of mine. At lunch, he told a client that interest rates would not rise. That afternoon, they went up by 1%.

Then there was the currency economist who announced that the pound was 'well underpinned' and should rise to DM 3.30, whereupon it promptly plummeted to DM 3.20.

(Of course I make blunders too. You'll find them detailed on page 104.)

But if short-term miscalculations are embarrassing, at least they are easily correctible. With a long range forecast the penalties for getting it wrong are much worse.

At the time of the Second Oil Shock, it was thought that soaring oil prices for the foreseeable future would mean the demise of the private motor car. Why build an eight-lane motorway when a six-lane one would be so much cheaper?

Result: the M25.

Oil Shock II also coincided with a debate about the future of London's airports. Under discussion was an ambitious expansion of Stansted airport and a public inquiry was set up to examine the pros and cons.

**"Against this positive economic background, the bull market looks set to continue."** *UK Equity Trust two days before the Crash – October 1987*

**"The Orbital will ease the path of cars and lorries wishing to avoid London congestion."** *Dept. of Transport – May 1986*

Naturally, in the best forecasting traditions, the interested parties at the 1981 Stansted Public Inquiry totally disagreed with one another's predictions.

The Government's experts and opponents of the Stansted expansion based their case on the familiar story that high oil prices would kill demand.

By 1988, they said, there would be only 50-55 million passengers wanting to use south east England's airports. Enshrined in the record of proceedings is the fact that a Mr Maiden from BAA had the temerity to disagree with them.



**"The fall in house prices over the next ten years could be as much as 80%."** *Bob Beckman – 1983*

Suppose, he said, that instead of high oil prices and low growth, it turned out the other way round. BAA, he stubbornly insisted, was forecasting 62-63 million passengers.

Impossible, sniffs the official record.

But BAA's Mr Maiden was right. When 1988 finally arrived, so did 62 million passengers.

With the number of air travellers using London's airports expected to double within the next 15 years, the situation facing them – had the Stansted planning application been refused – would be nightmarish.

Just as well the opposing forecasts were not believed.

Airport terminals and runways are vast projects costing hundreds of millions of pounds. Yet the money has to be committed perhaps ten years before the facility will be operational.

If the forecasts are wrong, the result will either be chaos or expensive wasted capacity.

Stan Maiden of BAA told me how their policy is to build in advance of growing demand, but that newspapers often complain that BAA's new facilities (such as Heathrow's Terminal 4 and Gatwick's North Terminal) were always opened only just in time. Little did they realise they were paying him a compliment.

**"It will be years – and not in my time – before a woman will lead the party or become Prime Minister."** *Margaret Thatcher – 1974*

Among the cognoscenti, BAA's forecasters have long been known for their uncanny accuracy.

Back in 1967, they said that by 1980 Gatwick would be handling between 9 and 10 million passengers a year.

Looking 13 years ahead is no easy task, and as Gatwick was at the time scarcely able to muster 2 million passengers annually, this prediction met with derision.

But they were right. (Today Gatwick is the world's second busiest international airport, with BAA's Heathrow taking the top slot.)

In fact, with one in five of all international flights either taking off from or landing at a BAA airport, it is vitally important for the world's aviators that they do get it right.

So what's the secret?

For a start, a good database. To test BAA's, I randomly asked for the number of arrivals on July 1st 1988 at Heathrow Airport's Terminal 3.

At what time of day? came the reply. Between 0500 and 0600, I said.

It turned out that 3,082 people had arrived on 12 aircraft. I challenged them to name the 5th aircraft. Singapore Airlines Flight SQ022, a Boeing 747, landed 0529 carrying 406 passengers and 21,416kg of cargo, they instantly replied. When you consider that their records stretch back in this kind of infinitesimal detail for 20 years, it is easy to see that they are extremely well informed.

**"A woman rang to say she'd heard there was a hurricane on the way – well don't worry, there isn't."** *Michael Fish – 15th October 1987*

The second necessity is to think creatively and not to rely on 'trends.'

By the time a trend is discovered it's inevitably half over. If it continues long enough it typically turns into something new and different – often its own opposite. Worst of all, trends don't tell us *why* things happen.

It takes a nice curvaceous non-linear thought, a stroke of imagination and a dash of insight into causality to determine where we are going at any given moment.

Even quantitative models based on lots of real data – the kind BAA collects by the warehouseful – need to be leavened by intuition, creative thinking and experience in the business.

Thirdly, how's your credibility? It is obvious that bad forecasts can cause chaos.

But by the same token, the best forecast is useless if the planning inquiry decides not to act on it. In our business, it is crucial to be believed. You have to prove need. In fact, say the cynics, it is more important to be believed than to be right.

Of course the more often you are right, the more likely you are to be believed.

**"The Arab cutbacks could mean that rationing would probably have to last for at least three years."** *Daily Telegraph – November 1973*

Take the current debate about whether or not the South East needs an extra runway in the 1990's. Some say yes, BAA say no, because Stansted will serve us until after the turn of the century.

No doubt it'll soon be statistics at dawn. But given the track records of the various parties involved, I know who I'd believe.

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AMERICAN NEWS

# Peronist's lead eroded as Argentina nears election

By Gary Mead in Buenos Aires

MR Carlos Menem, candidate for the opposition Peronist party in Argentina's presidential election, is still front-runner according to opinion polls released at the weekend.

However, with the poll due on May 14, what had been a strong lead is diminishing.

One highly regarded pollster – Mora y Araujo, Noguera and Associates – gave Mr Menem a lead of nearly six points over his nearest rival, Mr Eduardo Angeloz of the governing Radical Civic Union party of President Raúl Alfonsín.

Through interviews with 2,240 people in 19 parts of Argentina, the poll was conducted between April 21 and May 1.

The pollsters project that, if the vote had taken place on May 1, the Peronist ticket would have captured 43 per cent against the Radical's 38 per cent.

However, that projection also forecasts a 12 per cent vote for the Centre Democratic Union, whose presidential candidate, Mr Alvaro Alsogaray, might find himself holding the balance of power after election day.

Mr Menem had a 20 per cent advantage before Christmas.

What appears to be happening is that many undecided voters – who formed as much as a quarter of the electorate until last week – are beginning to make up their minds, many of them in favour of Mr Angeloz.

Mr Menem's team is still predicting that he will win 55 per cent of the vote, though that must be a distant hope now. Mr Angeloz has restricted himself to saying only that he will emerge the victor on May 15.

Both candidates are due to wind up their campaigns tonight, Mr Menem by speaking in Córdoba and Mr Angeloz by holding a rally in the centre of Buenos Aires. By law, all campaigning must cease 48 hours before the election.

On Sunday evening, Mr Menem staged a rally in Rosário, Argentina's third largest city, where more than 300,000 people turned out in support. Earlier, in Paraná, Mr Menem said he had information concerning possible assassination attempts but that he was not afraid because "I believe in God and destiny". The same evening Mr Angeloz spoke to a crowd of 25,000 in the smaller northern city of Tucumán.

Argentines will head for the polls in an atmosphere of economic uncertainty, following the release of the April inflation figures. Predictions for the month had ranged between 30 and 40 per cent. In the end government assessments suggested that the cost of living went up by 33.4 per cent, while wholesale prices soared by 58 per cent for the month. Analysts suggest that May inflation will be between 45 and 65 per cent.

The government is facing a severe Treasury deficit crisis and has turned to a big increase in value-added tax on cigarettes, pushing up their price by 51 per cent.

Argentina's currency, the austral, continued to slide against the US dollar yesterday, hitting 110 to $1, having closed last week at 90:$1. Despite a weekend denial by Mr Juan Pugliese, Economy Minister, fear grew that the government will impose a two-day bank holiday on Thursday and Friday this week.

# Bolivian government candidate well placed in presidential race

By Robert Graham, Latin America Editor, in La Paz

MR GONZALO Sanchez de Losada, the 59-year-old presidential candidate of Bolivia's ruling National Revolutionary Movement (MRN), yesterday looked best placed to become the country's 77th president, although results from the elections on Sunday remained incomplete.

As the architect of Bolivia's successful stabilisation programme, the erstwhile Planning Minister is pledged to continue modernisation of the economy and further opening to foreign investment of this the poorest of South American countries.

Although Mr Sanchez was running neck-and-neck with Mr Hugo Banzer, the retired general and former president running for the right-wing Nationalist Democratic Action party, the former was expected to pick up further rural votes, which were still being counted late yesterday.

The ruling party was predicting that its candidate would obtain 32 per cent of the vote against Mr Banzer's 28 per cent. Early yesterday, unofficial returns on almost 50 per cent of the vote gave Mr Banzer a slight edge with 27.7 per cent against 27.2 for Mr Sanchez.

The ex-president had hoped for about 30 per cent of the vote. He seems to have lost ground to Mr Sanchez in the closing stages of the campaign, largely as a result of the latter's television performance.

None of the nine presidential candidates will take an absolute majority so the next president will have to be picked by the new Congress. The voters yesterday were also choosing a 130-seat Chamber of Deputies and 17-seat Senate.

Mr Banzer faces a near-impossible task in finding sufficient allies in Congress for his candidature. He cannot count on the support of the MRN or the Social Democratic MIR, which looked set for about 21 per cent of the vote.

Mr Sanchez, however, can count on the MIR, led by Mr Jaime Paz Zamora, to support his candidature if he loses to Mr Banzer by a narrow margin. On the other hand, if he achieves a margin over Mr Banzer, he will probably find ADN willing to support him. Yesterday, his advisers were indicating this would be their preferred option since the two parties' economic policies were virtually identical.

Official results are not due until the end of the month. Inauguration of the new president will be on August 6.

Unwelcome observer: US Senator John McCain of Arizona looks uncomfortable as he watches voting in Panama, whose government had wished him and his Congressional colleagues elsewhere

# Fear and cheating at the polls

**Tim Coone reports from Panama on Noriega's struggle for power**

A CRUMPLED voting return salvaged from a scrimmage in downtown Panama City on Sunday night tells what may prove to be a tragic story for this Central American country of 2m people.

The return was shown to the FT by a scared young woman electoral official, who had just managed to slip away from a blacked-out polling station.

A block away, the government's candidate, Mr Carlos Duque, who is supported by the controversial national strongman General Manuel Antonio Noriega, had just proclaimed himself the winner of the presidency in the general election held on Sunday.

No official results have yet been released. The crumpled return showed, however, that the opposition candidate had received 75 per cent of the vote at the particular polling station, in the working-class heart of the city, supposed to be a government stronghold.

When the lights in the neighbourhood suddenly went out, the woman said, government supporters sealed off the polling station and began to tear up the official voting returns. In the confusion, she rescued one of them.

She is a member of one of the eight parties in the pro-Noriega Colina alliance, of which Mr Duque is the candidate. Scared to give her name, she said: "I work in a government office. I could lose my job if I talk."

The return for the polling station told the story for her: 33 votes for Colina, 155 for the opposition ADOC alliance.

Leaders of ADOC claimed on Sunday night that incidents similar to that witnessed by the FT have occurred at various places around the country, and that the government is preparing to steal a "landslide victory" from the opposition.

*Results noted by independent* observers and foreign journalists, from 50 polling stations in Panama City, showed ADOC with three votes for every one going to Colina.

In proclaiming his victory, Mr Duque said on Sunday night: "There is no solid basis to the accusations of fraud. The fraud story is over."

*It is only just beginning.* Long delays in releasing any official results have further raised fears that Panama may be heading for a crisis.

The main opposition candidate, Mr Guillermo Endara, has promised to lead civil opposition to the government on to the streets.

The US government has said it will not recognise a fraudulent election, and has hinted that military intervention in Panama is an option. More than 10,000 US troops are stationed in Panama to protect the Panama Canal, under the US-Panama treaty of 1977.

Gen Noriega, whose future is put under hard question by the elections, has kept quiet throughout the campaign and since the polls closed. His battle to stay at the head of the *armed forces despite much* pressure from home and abroad may be over, or be about to enter an even more confrontational phase.

# PM quits in Peruvian political crisis

By Veronica Baruffati in Lima

MR ARMANDO Villanueva del Campo, Peru's Prime Minister and Interior Minister, gave his resignation to President Alan García late on Sunday, just after the latter had returned from Brazil.

Before his meeting with the president, Mr Villanueva had held emergency talks with cabinet ministers at his home.

Rising violence and terrorism have cost the lives of two congressmen in the last 10 days. On Saturday gunmen suspected to be Sendero Luminoso left-wing guerrillas assassinated Mr Pablo Li Ormeno, a congressman of the ruling APRA party.

The prime minister's resignation also comes amid a deepening economic crisis.

Yesterday, Mr Villanueva told reporters, at a ceremony in honour of Mr Li, that his resignation had been accepted. He said: "Now it will be someone else's turn to face what our country is going through."

Later, Mr García said he had named the 88-year-old Vice-President Luis Alberto Sanchez as Mr Villanueva's successor.

The new cabinet will be expected to deliver its government programme to an increasingly critical Congress after it has been sworn in.

Reuter reports: Officials of the Inter-American Human Rights Commission arrived in Peru late on Sunday to look into charges of atrocities on both sides of Peru's guerrilla war.

● A member of the commission said the group, led by Argentine diplomat Ms Elsa Kelly, would meet top government officials and visit the Andean city of Ayacucho, original centre of the Shining Path movement's insurgency.

The commission, part of the Organisation of American States, would visit some of Peru's overcrowded prisons to look into reports of rights abuses against convicted Shining Path militants.

The local Pro-Human Rights Association said at least 17 *people went missing at the* hands of security forces in April alone, in Ayacucho and two neighbouring regions under state of emergency.

WORLD TRADE NEWS

# Canadians hope to trade on pact with US

## North American free market adds to lure for foreign investors, writes David Owen

AMONG the fondest expectations of Canadian proponents of the US-Canada Free Trade Agreement *is that the deal will* increase manufacturing investment by Asian and European companies intent on attacking North America from a Canadian base.

With the border in effect neutralised, they argue, and with Canada much more receptive to foreign investment than in the days of former prime *minister Pierre Trudeau, the* cost-effectiveness of manufacturing in Canada will be recognised. So will other enviable facets of Canadian life such as the generosity of its social programmes.

They point to soaring inflows of foreign direct investment – which doubled in just two years to nearly C$9bn (£4.5bn) in 1987 – as evidence that Canada's potential is already being fulfilled.

They cite as an example the motor industry in which free trade, with "strings" in the *form of domestic content* requirements, has been in effect since 1965. Canada expects by 1990-91 to be turning out more than 20 per cent of the vehicles produced by East Asian companies in North America.

Indeed, from the viewpoint of overseas companies which have not yet invested in North America, Canada is alluring. In terms of competitiveness, the current value of the Canadian dollar, at approximately 84 US cents, is one blessing. Another is improved labour productivity, which climbed by 2.9 per cent in 1988 – its biggest jump for four years.

As in the US, falling unemployment is putting pressure on wages in localised areas, notably metropolitan Toronto. But much higher rates elsewhere (unemployment in Newfoundland is still as high as 15 per cent) should help prevent that pressure from getting out of hand.

Outside perceptions of the Canadian lifestyle, in particular *the standard of schooling* and social programmes, are a further asset. So is Canada's comparatively well-educated workforce. And for French, Belgian and Swiss companies, there is the lure of a well-established, predominantly French-speaking society in Quebec.

But there are counter-arguments. For one thing, the border has not quite been neutralised. Until further notice, the two countries' respective trade laws will continue to apply in their home jurisdictions. A bilateral panel is charged with interpreting those laws when disputes arise.

"We will see how good Canadian access to the US market will be after there have been some appeals to the bi-national panel", says Professor Alan Rugman of the University of Toronto.

Higher Canadian interest rates may be a further deterrent. So may less tangible psychological whims, according to Professor Richard Wright of McGill University. "The Japanese are *always going to be* attracted to the US market, partly because of prestige rather than cost factors," he says.

The superiority of Canadian social programmes may *also* be somewhat undermined as Prime Minister Brian Mulroney's Conservative Government battles to close the gaping C$30bn federal budget deficit. The recent budget contained C$1.5bn of spending cuts, although defence and foreign aid bore the brunt of the burden.

One may quibble too with the interpretation of figures denoting that foreign direct investment in Canada is soaring. The numbers include, after all, both property acquisitions and foreign takeovers, which do not necessarily increase the sum of manufacturing capacity in the country. Investments in resource sectors such as pulp and aluminium, furthermore, are the result primarily of Canada's abundance of raw materials and not of the free trade agreement.

Indeed, according to Mr Jack McKeown, director of the Gleneagles Group, a Vancouver-*based private consultant,* Canada is currently attracting a mere 2 per cent of bona fide Japanese manufacturing investment in North America.

Moreover, the motor industry constitutes a distinctly imperfect case study, since Canada's success in attracting East Asian investment was in part due to a controversial duty remission programme which it has undertaken to discontinue under the terms of the trade deal.

Prospective investors continue to seek incentives. Mr *Tatsuo Yoshida,* managing director of the Industrial Bank of Japan, wrote, after visiting Canada in 1986: "It is important that Canada provide...answers to the question: 'What is the comparative advantage of investing in Canada rather than...the United States?'"

In the end, most economists agree Canada's share of overseas direct investment, in particular from newcomers to the North American market, will depend in large measure on whether it remains competitive. A spokesman for the Quebec Government, where cultural factors might be presumed to hold the most sway, says that "the exchange rate is much more important than any cultural affinity."

If newcomers to North America will be swayed largely by economic factors, those promoting the social side may be advised to target foreign companies which already have a presence in the US. Though the removal of tariff barriers will encourage some to export to Canada from their established US base, it will also make Canada more attractive for companies wishing to expand.

"Across the country, there are *locations adjacent to* the US that are much more attractive than the alternative on the other side of the border," says Mr McKeown of the Gleneagles Group.

It appears that the trade deal probably will contribute to a gradual increase in new foreign manufacturing investment outside the resource sector in Canada, not least because this has been relatively low until now.

At the same time, however, net disinvestment amongst foreign multinationals which *already have investments in* both countries is expected, since any savings from lower input costs are generally outweighed by the inefficiency of plants built exclusively to serve a protected (and small) Canadian market.

Even Canadian companies such as Northern Telecom have "compelling economic reasons" to close most of their Canadian plants, according to Mr Francis McInerney, a New York-based analyst.

Foreign companies will feel no such compunction. The most that can be expected is for facilities to be restructured so that they can supply a restricted range of relatively low-volume products

**SPENDING estimates accompanying last month's tough Canadian budget reveal *that the Government is* expecting concessional loan disbursements to rise sharply in the 1989-90 fiscal year, writes David Owen in Toronto.**

**The money is used to help exporters cement foreign contracts by offering preferential payment terms. The practice has spread as more developing countries have come to expect such terms.**

**Ottawa expects to provide C$125m (£63m) of concessional funding in the year to March 31. This represents an increase of two-thirds from the 1988-89 estimate of C$75m.**

**The bulk of the new money, however, is already committed to multi-year projects. The size of the projected increase is hence less a signal that Canada will become a more aggressive player in the already hotly contested field than a testament to Canadian exporters' past successes.**

**Indeed, exporters fear that Ottawa's resolve to provide concessional financing to support new initiatives may be waning in the light of the need to address the C$30bn federal budget deficit.**

# Taipei fails to appease Washington

FIVE days of bilateral trade talks have left the US dissatisfied with Taiwan's efforts to reduce its trade surplus, according to news agency reports from Taipei, Our Foreign Staff writes.

During the talks, which ended at the weekend, Taiwan presented a plan to cut its surplus with the US by 10 per cent a year for the next four years by reducing tariffs, improving access to US products and stepping up its buying missions to the US.

However, Mr Donald Bishop, of the American Institute in Taiwan described the plan as "not as ambitious as it could be," Reuter reported.

Taiwan's trade surplus with the US amounted to $12.7bn (£7.5bn) last year, according to figures from the US bank Morgan Guaranty. The surplus has recently begun to grow again and in the six months to February was running at an annual rate of $14bn.

Fears of retaliation by the US under the Super 301 clause of the Trade Act has caused the Taiwan dollar to surge. But this rise came to a halt yesterday after Mr Nicholas Brady, US Treasury Secretary, *said late on Friday* that there may be no further need for currency appreciation.

# US to resume beef exports

THE US is shortly expected to resume shipping some hormone-free beef to Europe under an arrangement allowing European Commission inspectors to check US farms and slaughter houses, writes David Buchan in Brussels.

This year's transatlantic food trade war stemmed from the European Community's ban on January 1 on around $100m worth a year of US hormone-produced meat imports and from retaliatory US duties on EC food exports.

Brussels and Washington are still at odds on the EC's health-inspired ban on growth hormones, regarded by the US as safe. But they have agreed that, to the extent US meat shipments to Europe can be re-started, US retaliation should be proportionately scaled down. A US-EC task force will continue, at least until midJune, to try to find a compromise.

# Freight rates may rise to allow new tanker investment

By Karen Fossli in Oslo

INTERTANKO, the Oslo-based International Association of Independent Tanker Owners, yesterday issued a clear warning that freight rates will have to be increased to justify the investment needed to renew the world's ageing tanker fleet.

The warning was issued in Intertanko's annual report for 1988, out yesterday, which called for tanker owners to take a confident market posture by raising rates to enable an "orderly replacement programme" of the fleet.

Average time charter based freight rates for 1988 for a 250,000 dead weight tonnage (dwt) VLCC (very large crude carrier) reached in excess of $16,000, a record for the 1980s, but that much again short of what is needed to break even for a newly-built tanker.

According to Intertanko, about 22 per cent of the world tanker fleet is older than 16 years, and 35 per cent older than 15 years. About 41 per cent of the tanker and combined fleet was built from 1974 to 1976.

About 13.5m-dwt of the fleet will have to be replaced every year, if a 20-year lifespan is assumed, from 1993, concludes Intertanko.

World seaborne oil transport, measured in tonne-miles, increased by 10 per cent in 1988, mostly due to an 8.9 per cent growth in US crude oil imports and a 7.9 per cent rise in Japan's, though supply of tanker and combined tonnage increased by just over 3m dwt, or 1 per cent, to 271.4m dwt.

Intertanko's long-term outlook for the tanker industry is "promising", with crude oil demand expected to increase slowly, though steadily, as non-Opec supply decreases.

● Intertanko officials said yesterday they were confident that the US would this year sign the 1984 International Maritime Organisation protocols on oil pollution liability which would see the establishment of an *international* compensation fund for major oil spill accidents.

Intertanko said that the Exxon Valdez accident off Alaska, one of the world's worst tanker oil spills, would probably spur US officals to sign the protocol.

**RAUMA-REPOLA, the Finnish marine technology and forest products group, has signed a *contract to supply* the Iranian National Oil Company with an oil drilling platform worth FM300m (£42.3m), writes Olli Virtanen in Helsinki.**

**The jack-up type platform will be delivered by 1992 complete with the assembly dock. It will be assembled at a shipbuilding and servicing base to be built near Neka, on the *southern shores of the Caspian* Sea. The assembly will take place in Iran because the turn-key project also involves a training and technology transfer package.**

# Zimbabwe sets out plan to lure fresh foreign capital

ZIMBABWE unveiled new investment rules yesterday designed to lure fresh foreign capital and curb rising youth unemployment, Reuter reports from Harare.

A White Paper (policy document) presented by Finance Minister Bernard Chidzero said the Government would set up a single investment centre, give more freedom to foreign holders of funds blocked by exchange control, and make it easier for foreign-controlled companies to borrow in the local market.

"We believe in the common sense of investors. They know where to take risks, and there are good risks to be taken in Zimbabwe," he told a news conference.

The investment rules, some of which have to be approved by parliament, were announced to meet the deadline of a conference on investment in Zimbabwe in London this Friday. They will replace an earlier code introduced in 1982.

Mr Chidzero said other policy changes to cut back the Government's role in fixing wages and prices, and a reform of labour laws, would be announced in the next few weeks.

There will also be separate tax incentives for the mining industry, seen as the most promising earner of foreign exchange.

Foreign investors have mostly shunned Zimbabwe since independence in 1980 because of the Government's proclaimed commitment to Marxist socialism and the tightly controlled nature of the economy.

Mr Chidzero said the Government wanted to rely more on the market, recreating confidence to stem capital flight and disinvestment. "We are not grabbers," he said.

He denied that the government's socialist policies were being altered, saying amid laughter that they were being adapted to changed circumstances "in the true nature of the dialectical process."

Mr Chidzero said the Government was considering a number of options for selective and gradual trade liberalisation as a second stage of its reform plan.

# Flight simulator link with US

By Lynton McLain

REDIFFUSION Simulation, of Crawley, Britain, is to assemble commercial flight simulator equipment in the US and establish a systems engineering base at Glenrothes, Scotland.

The company was bought by Hughes Aircraft of the US from the BET group a year ago. It will assemble simulator products at Broken Arrow, Tulsa, in response to high demand for commercial flight simulators, especially in North America, *Mr Albert Jicha,* president of Hughes Training and Support Systems group said.

Production capacity at Crawley has risen by 40 per cent over the past three years. "Market growth demanded that we extend the expansion at Crawley, which will continue into the 1990s, by bringing on stream additional capacity that is available in Tulsa," said Mr Jicha.

Production at Tulsa will involve the assembly of Rediffusion Simulation's hardware and software modules. The first simulators at Tulsa will be for the US market for jet and propeller aircraft carrying between 75 and 120 seats.

UK NEWS

# Input price rises signal squeeze on profit margins

By Peter Norman, Economics Correspondent

PRICES for manufacturers' raw materials and fuel rose sharply last month suggesting that British industry may be facing a squeeze in profit margins.

Figures yesterday from the Department of Trade and Industry showed that seasonally-adjusted producer input prices rose by a sharp 1.6 per cent in April compared with March to show a year-on-year gain of 7.7 per cent.

Prices charged by manufacturers for their products rose less dramatically. The DTI said factory gate prices, which are not seasonally adjusted, increased by 0.5 per cent between March and April and were up 5 per cent compared with April 1988. Output prices in March were up 5.2 per cent compared with March 1988.

April's jump in input prices was much larger than expected. London financial markets had been looking for an increase of 0.9 per cent last month, according to MMS International, the economic data service.

The growing pressure on input prices was also reflected in an upward revision of March data. The DTI announced that the seasonally-adjusted increase between February and March was 1.8 per cent compared with 1.4 per cent previously and scaled up the year-on-year rate in March to 6.9 per cent from 6.5 per cent.

Officials at the Treasury welcomed the news as a sign that manufacturers were absorbing raw material and fuel price rises rather than adding to inflation. However, Mr Steven Bell, chief economist at merchant bank Morgan Grenfell, warned that higher input prices and labour costs rising at an annual rate of about 9 per cent would squeeze companies' margins and hurt profits.

DTI officials said the widening gap between input and output prices in April reflected special factors. The sharp rise in input prices was mainly due to higher costs for electricity, crude oil and home produced animals sold for slaughter. The slowdown in the year-on-year rise in factory gate prices resulted from the decision of Mr Nigel Lawson, the Chancellor of the Exchequer, not to raise drink and tobacco duties in the budget.

The seasonally-adjusted index of input prices was 104.4 (1985=100) in April against a revised 102.8 in March. The unadjusted index for output prices was 117.8 in April against 117.2 in March.

# Former directors accused of £10m trade loans fraud

Financial Times Reporter

BANKS were cheated out of £10m in a "gigantic fraud" involving bogus international trade loans, it was alleged in court in London yesterday.

The banks believed they were lending money for short-term loans to fund international trade but the cash was going in long-term loans to two bankrupt West German companies, alleged Mr Peter Jackson, prosecuting.

Mr Dieter Schiffer, of Cobham, Kent, and Mrs Patricia Buzalek, of Hampstead, north London, both former executive directors of Gallic Credit International, deny six charges of fraudulent trading.

Mr Jackson said the mastermind of the plan was Mr Schiffer "who used his knowledge of banking to manipulate the system". When Mrs Buzalek came to work with him "Schiffer corrupted her to assist him".

Mr Jackson alleged that banks were shown bogus bills and letters to convince them the loans were for international trade. The cash was lent to two West German companies, Euratalst Vertackungen and Locina, which were broke.

The trial continues.

# Employers warned on graduate shortage

By David Thomas, Education Correspondent

BRITISH employers are likely to be forced to overhaul recruitment and personnel policies because their demand for new graduates will substantially outstrip supply over the next decade, the Institute of Manpower studies reports today.

The Institute, based at Sussex University, says demand for new graduates could rise by 30 per cent by the end of the 1990s with little growth in overall supply.

Its report on graduate recruitment in the 1990s is one of the most thorough studies yet of a problem increasingly preoccupying large employers — how to satisfy the spiralling demand for graduates.

● Supply. In the short term, there will be a 5 per cent rise in the output of university and polytechnic graduates before 1992. But even over this period, the number of university engineering and technology graduates is expected to fall, with sharp falls in electronics and chemical engineering.

After 1992, new graduates are likely to dwindle due to the demographic decline of young people and other factors such as the impact of the forthcoming scheme to introduce student loans.

Moreover, the composition of new graduates is likely to change, with a rising proportion of female and mature graduates, as well as graduates who entered higher education without traditional Advanced level qualifications, the standard university qualifying examination.

These trends will "post challenges for those recruiters wedded to the recruitment of the traditional 21-year-old male, graduating in a technological subject from a university," the report argues.

● Demand. By contrast, demand will continue to rise thanks to the projected growth in professional, managerial or highly technical jobs.

Moreover, industries which have only recently begun recruiting large numbers of graduates, such as the hotel, catering and leisure industries, are likely to continue to boost demand.

The report argues that employers will have to review their recruitment and personnel policies to cope with this growing gap between supply and demand.

It calls for improvements to selection and induction of graduates designed to reduce turnover of young graduates; closer links between employers and colleges; and a review of whether graduates are needed for all the jobs they are being asked to fill.

The report says that the graduate labour market will become increasingly segmented, with increasingly high premiums payed for best graduates.

However, it plays down the suggestion that British employers can look to graduates elsewhere in Europe to meet the shortfall in supply from UK colleges.

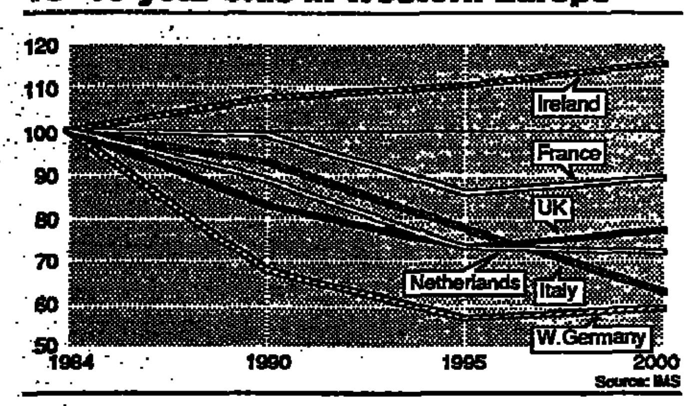
It says that almost every other European country will also suffer a fall in the numbers of young people and points to the different recruitment and educational traditions in Continental countries.

If UK employers try to tap Continental colleges, then "new mechanisms of recruitment and selection will be needed, and the role and initial employment of these graduates will need to be thought through."

In a review of trends in the 1980s, the IMS report points out that graduate shortages have already emerged despite a growth in one quarter of first degree graduates since 1979.

*The Graduate Labour Market in the 1990s. By Richard Pearson and Geoffrey Pike. IMS, Mantell Building, Sussex University, Falmer, Brighton BN1 9RF. £18.*

15–19 year olds in Western Europe




# Papers fined over Spycatcher

By Raymond Hughes, Law Courts Correspondent

THREE national newspapers have each been fined £50,000 for contempt of court in the Spycatcher affair.

The fines were imposed yesterday by a High Court judge on the Independent, the Sunday Times and the now defunct News on Sunday.

Mr Justice Morritt held that they had been guilty of contempt in publishing extracts from the memoirs of Mr Peter Wright, a former MI5 officer, while injunctions obtained by the Government banning publication of Wright material were in force against The Guardian and Observer newspapers.

The three papers will also have to pay the estimated £150,000 legal costs of Sir Patrick Mayhew, Attorney-General, who brought the case on behalf of the Government.

Sir Patrick had dropped similar contempt cases against three other newspapers, the London Evening Standard, the Sunday Telegraph and the London Daily News, which has ceased publication.

Mr Justice Morritt dismissed those cases but refused pleas by the Evening Standard and Daily News that the Attorney-General should be ordered to pay their costs.

The papers had brought the proceedings upon themselves and must bear their own costs, the judge said.

The Sunday Telegraph had agreed to pay its own costs.

Mr Andreas Whittam Smith, editor of the Independent, and Mr Andrew Neil, the Sunday Times editor, said they would appeal.

Mr Whittam Smith said that the worrying consequence of the ruling was that "injunctions can now be manipulated as a sort of blanket gag on the press. I think it's a very unfortunate result and for that reason we are bound to appeal. It is a very crucial point for the press."

Mr Neil said: "It seems that now, to get a proper value put on freedom of the press, you have to go outside this country. I think we will have to go to Strasbourg as the Sunday Times did in the thalidomide case."

In his judgment, Mr Justice Morritt said that the newspapers had argued that there could be no interference in the administration of justice, laying a newspaper open to a charge of contempt of court, if publication was in the public interest.

That, the judge said, was not the law. "If all the other constituents of contempt of court by interfering with the administration of justice are present the fact that publication is in the public interest is not a defence."

# Union plans ballot on docks strike

By Our Labour Staff

THE Transport and General Workers' Union plans tomorrow to begin a national strike ballot of Britain's 9,400 dockers in spite of a move by two major port employers to have any strike declared unlawful.

The union is opposing Government plans to end the Dock Labour Scheme which guarantees dock employment.

Two separate writs were issued in the High Court yesterday by port employers alleging that the strike ballot was inadequately worded and disguised its true purpose.

Employers indicated that yesterday's legal move was not primarily aimed at preventing the ballot from going ahead. However, they argue that the strike call is directed against Government plans and is, therefore, "political."

# Community transport ministers accused of railway 'myopia'

By Kevin Brown, Transport Correspondent

FT CONFERENCE

WORLD RAIL

MR Stanley Clinton Davis, the former European Commissioner for Transport, told a Financial Times conference on World Rail yesterday that European Community transport ministers had been guilty of "incredible dereliction of duty" in relation to railways.

The Commission had put forward proposals intended to equalise the infrastructure costs of Europe's railways and road transport, but ministers had been suspicious of allowing the Commission to become involved. This was a myopic approach, because the 21st century was likely to be the age of rail.

Ministers had to grasp the need to invest financial and political capital in railways. To lose time would waste the opportunities which were merging and cost Europe a great deal of money.

The proper use of Europe's railways was the only way to make effective use of the emerging single market of 320m people.

European railways could retain their existing share of the freight market and develop new markets only by providing services targeted at specific customers, Mrs Marie-France Lagraulet, of SNCF French Railways, said.

Mrs Lagraulet, deputy marketing manager for international freight, said railways had to concentrate on specific traffic, such as long distance, heavy goods, and regular flows between important economic areas, for which they had cost advantages.

Mr Ross Sayers, chairman of the state rail authority of New South Wales, said railway operating losses were usually proportionate to the level of political intervention. Poor performance was usually blamed on the railway management and unions which was unfair because the railways were what successive governments had made them.

No government would change its mandate for the railway unless the long-term benefit in fixing the railway provided political benefits greater than the cost of leaving it alone.

Mr Ronald Lawless, president of state-owned Canadian National Railways, said it was possible that political, social and economic realities were outdating the formal structures of state owned industry. Privatisation was usually controversial, but there were many Canadian National managers who would welcome it.

However, critics had too often equated state ownership with failure or undisciplined spending. Little credit had been given to the positive results achieved by managements dedicated to excellence regardless of ownership.

Mr Bill Steinmetz, vice-president of Booz Allen & Hamilton International UK, said Europe's economic growth would be fuelled by an efficient transport system in which the railways would play an important part. But there were many barriers to an efficient Pan European rail network.

Investments such as the Channel Tunnel were essential to the growth of Europe's railways, but a network approach was necessary to evaluate the advantages to the various transport operators.

Mr Stanley Crane, former chairman of Consolidated Rail Corporation of the US, said Conrail had been transformed into an efficient and profitable railroad as the result of consensus and effort.

The flotation of the formerly state-owned company in 1987 had forced it to tailor its service.

Mr Kevin Hyde, chief executive of the New Zealand Railways Corporation, said the NZ railway had been revitalised by major changes in productivity, operations and commercial organisation following deregulation in 1983. Any railway system would be astonished at the ability of its staff to produce results in a commercial environment once released from bureaucratic restraints.

# Dearer borrowing slows pace of growth in credit

By Peter Norman, Economics Correspondent

OFFICIAL figures yesterday provided further evidence that high interest rates are slowing consumer demand in Britain.

Despite faster growth in March, the Department of Trade and Industry reported that the amount outstanding on consumer credit agreements in the first quarter grew more slowly than in any three month period since the third quarter of 1987. It also confirmed earlier provisional figures which showed the volume of retail sales stayed unchanged in March.

The amount of outstanding consumer credit granted by British finance houses, retailers and on bank credit cards grew by a seasonally adjusted £326m in March after increases of £260m in February and £224m in January.

However, the first quarter increase of £810m which lifted the total amount outstanding to £27.56bn was the slowest since the third quarter of 1987.

The latest quarterly estimates for consumer credit plus lending by insurance companies and loans by banks on personal accounts also showed outstanding credit growing at its slowest rate since the third 1987 quarter. This broader definition of outstanding consumer credit increased by £1.3bn to £43.4bn in the quarter to the end of March.

New consumer credit granted by finance houses, retailers and on bank credit cards was a virtually unchanged £3.69bn last month after £3.65bn in February.

New credit granted in the first quarter at £10.8bn was also little changed compared with the general level of the previous three quarters. The Department said its figures showed that the increasing trend in the amounts lent on new agreements in 1986 and 1987 had ended last year.

Final figures for the seasonally adjusted volume of retail sales in March were unchanged from February and therefore in line with provisional figures.

Retail sales volumes in the three months from January to March were 0.25 per cent lower than in the final quarter of last year while sales volumes were up by 4 per cent compared with the first quarter of 1988. The seasonally adjusted index of retail sales volumes was 141.7 (1980 = 100) in March.

# Rivals compete to take Shorts under their wing

## Michael Donne looks at the choice of suitors for the Belfast aerospace manufacturer

A GOVERNMENT choice between the two bidders for Short Brothers, its wholly owned, Belfast-based aerospace manufacturer – either Bombardier, the Canadian group which owns Canadair, or the consortium comprising GEC of the UK and Fokker of The Netherlands – is likely within a few weeks, possibly by the time of the Paris Air Show in early June.

But that is likely to be only the precursor to a further period of detailed negotiations as the complex details of the takeover are worked out. Completion of the privatisation of Short Brothers, including EEC clearance for the deal, is not likely to be completed until the autumn.

Nevertheless, an early Government choice of prospective buyer is desired on all sides – by Short Brothers itself to end the uncertainty over its future.

But the Government itself, which has owned Short Brothers since its takeover of the company in 1943, wants to be free of its tie, not only as part of its continuing programme of privatisation, but also because it recognises that to retain the company will inevitably involve the Government in an expensive capital reconstruction and a major re-equipment investment programme.

The Government cannot, and does not, expect to make a profit on the deal. It has already started on the financial reconstruction by taking over the commercial debts of £390m with a loan to the company of that amount, to be converted eventually into equity under the capital reconstruction that is seen as an essential prelude to privatisation.

The precise amounts of the offers by the two bidders have not been disclosed. But it is thought that they do not exceed £100m, and may well be less, covering the value of the assets in land, buildings, machinery and other facilities, and an element for the value of continuing contracts on aircraft and missiles programmes. Some of the projects, such as the Tucano military trainer and the Starstreak ground-to-air missile, are already extensively Government-funded under the defence budget.

The company's future major aircraft programme, the twin-jet FJX 50-seat regional jet airliner, although eventually expected to cost some £500m if it goes ahead, is still only in its earliest stages of design and development studies, with comparatively little spent.

The most critical element in deciding who wins Short Brothers will be the long-term strategic intentions of each of the bidders, including the

The FJX – still in the early development stage

maintenance of a major aircraft manufacturing commitment, either the FJX or something else. If Bombardier becomes the new owner, it would hardly be likely to continue the FJX, since that project competes directly with its own Canadair Regional Jet, a new venture already under development and winning orders in world markets. In that case, Bombardier would be required instead to feed into Short Brothers a substantial part of its Regional Jet activities to help keep the Short's aircraft skills alive.

GEC-Fokker would also be required to make such an aircraft commitment, either by continuing the FJX or by feeding in a substantially increased element of Fokker Type-100 jet airliner production, or both.

The GEC-Fokker problem in continuing the FJX would be that it would not only involve a heavy capital investment (assisted at least by some Government launch-aid) but also be competitive with Fokker's own Type 50 twin-engined turbo-propeller regional airliner, something Fokker would be reluctant to see.

A solution to these problems will have to be found in the next few weeks, before the winner in the battle can be chosen, for they are central to the Government's – and Short Brothers' – basic requirements.

These are to see the Belfast company privatised as an entity, maintaining and if possible expanding all its activities – now being reorganised into five "profit centres" comprising commercial aircraft, military aircraft, aerostructures (aircraft parts), missile systems and manufacturing facilities – and thereby maintaining employment and continuing to contribute substantially to the stability of the Northern Ireland economy.

Just how the bidders will respond remains to be seen. At present, it seems that Bombardier has more synergy with Short Brothers than GEC-Fokker. Bombardier builds aircraft through Canadair, and supplies aircraft parts (as does Short Brothers) to such big jet manufacturers as Boeing.

It builds mass-transit vehicles which would fit with Short Brothers' own (albeit small) vehicle manufacturing activities, and for which the Belfast company's aerostructures capacity and skills would be invaluable.

Bombardier has said it will retain Short Brothers as a single unit, retaining the company's name. It stresses that it is committed to a long-term investment in the company to make it grow, creating a Canadian-European alliance that would become a major force in the commuter airliner market, with an eventual family of aircraft, as well as in the mass-transit vehicle business.

The GEC-Fokker consortium, by comparison, has less immediately apparent synergy. GEC itself is primarily interested in acquiring the Short Brothers' missile business, especially the Starstreak ground-to-air defence weapon, which would fit with its existing advanced avionics activities. But it has no direct experience of aircraft manufacture.

Fokker, however, needs additional aircraft manufacturing capacity to help it meet the big orders for its F-100 airliner recently won from the US and elsewhere; and it also wants to ensure its continued source of supply of the Short-built wings.

Fokker could not afford to bid for Short Brothers on its own, while GEC would not want to be committed to maintaining alone an expensive aircraft manufacturing business about which it knew nothing. The combination of the GEC and Fokker skills, however, appears to create a suitable vehicle for the purchase of Short Brothers.

What has to be determined in the next few weeks is how far GEC and Fokker are prepared to go in maintaining and financing Short Brothers as an entity in Northern Ireland, including a long-term commitment to the FJX or another aircraft manufacturing venture, and in what form they will undertake the acquisition if approved.



# Hot rock energy project advances

By Steven Butler

A PROJECT to produce electricity from a hot-dry-rock reservoir deep under Cornwall, in the west of England, took a step forward yesterday with the start of a study aimed at designing a commercial system that would operate at a depth of 6km.

Present experimental work is being carried out at 2km at Rosemanowes in Cornwall.

RTZ Consultants will conduct the new study in association with the Central Electricity Generating Board, the South Western Electricity Board and Kentings Drilling Services Limited. The Department of Energy is supplying £466,000 for this phase of the project, out of a total budget of £8.15m.

The technique of tapping hot-dry-rock energy involves drilling bore holes and creating a network of fractures in the rocks by means of explosives.

Water would be pumped down one hole, forced through the cracks, and return to the surface as steam or as heated water.

The project began in 1977 and has cost £30m to date.

The current phase of the project is to assess the commercial feasibility of the project for electricity generation, and to define a plan for developing a deep prototype system. It is expected to be concluded by the end of next year.

If the commercial prospects prove attractive and industrial consortium would be formed to establish a power station and to market the electricity.

The government will require that a certain amount of electricty is generated using fuels other than fossil ones after the electricity industry is privatised.

It plans to spend about £50m in the next three years for renewable energy.

# Date fixed for remand 'tagging' experiments

By Tom Lynch

BRITAIN'S first experiment in the electronic tagging of accused people awaiting trial will begin in August, the Home Office announced yesterday.

Tagging, which aroused political controversy when proposed in a policy paper last year, involves an accused person – who would otherwise be held in custody – wearing a device so that his or her movements can be monitored.

Ministers have argued that tagging will reduce pressure on the remand system. Overcrowding was claimed as one cause of the recent riot at the Risley remand centre in Cheshire, north-west England.

The first six-month pilot scheme will start in Nottingham on August 14, and others will follow in North Tyneside in September, and the Tower Bridge area of London in October. Marconi, the UK electronics group, has won the contract to supply the equipment and manage two of the schemes. The other contract has gone to Chubb.

Accused people – who must give their consent – will be fitted with an anklet bearing a low-powered radio transmitter which will send frequent signals to a unit attached to their home telephones.

If a signal is missed, the unit sends a message to a monitoring station. If the accused is not at home the monitoring station alerts the police.

The National Association of Probation Officers and the National Association for the Care and Resettlement of Offenders both said that tagging would not reduce overcrowding in remand centres.

Nacro called the tagging scheme "a costly irrelevance" which would almost certainly be used disproportionately on black defendants.

# Curriculum changes 'may wipe out English reserve'

By David Thomas, Education Correspondent

THE English reputation for reserve could become a thing of the past, thanks to the new national curriculum, one of the architects of the Government's educational reforms will claim tonight.

Mr Brian Cox, professor of English at Manchester University, will make this claim in a lecture on the English element of the new school curriculum to be delivered at Strathclyde University.

The professor chaired the working party on the English curriculum which stirred up considerable controversy in November with the contention that non-standard forms such as "we was, he ain't done it and they never saw nobody" are "rarely more than a social irritant to some people."

Prof Cox, for long one of the most influential thinkers on the right of the educational debate, alienated some of his natural allies by endorsing such comments.

However, in tonight's Strathclyde lecture, sponsored by the dictionary publishing wing of Collins, Prof Cox will set out atlength the thinking behind the English curriculum, emphasising two key objectives.

First, the new curriculum will aim to foster greater mastery of the craft of writing among secondary schoolchildren.

"Pupils should increasingly make their own decisions about their writing: what it is about, what form it should take, and to whom it is addressed," Prof Cox believes.

Second, all schools will have to pay as much attention to oral as to written English, a change which Prof Cox believes to be "revolutionary in its consequences."

"It could be said, without too much exaggeration, that this new initiative could change the English national character, our reputation for taciturnity, reserve and silence."

Prof Cox will argue that university English departments should match these changes by examining how well students can speak and listen, thereby encouraging British students to become as fluent orally as their US counterparts.

All first-year students at university, including those studying science, should be taught about the craft of writing, while English students should explore a wider range of media in which to express themselves. "We have imprisoned our student in the essay," Prof Cox says.

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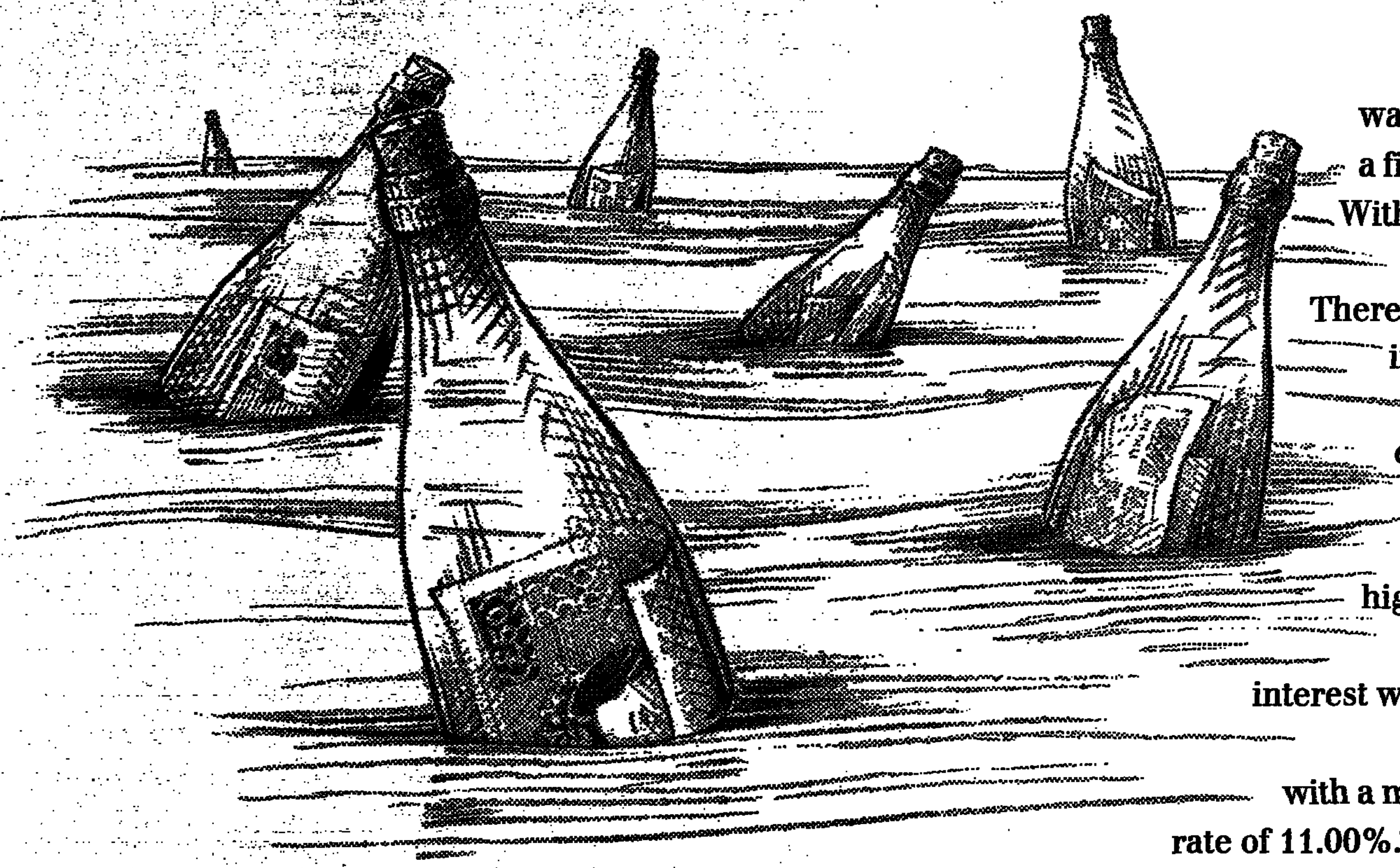

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# The Japanese gain a clear view of TV's future

**Roy Garner reports on the blossoming of applications for high-definition television**

While an international debate continues over production standards for high-definition television, in Japan – which claims a four-year lead in HDTV – the future has already arrived.

It will be several years before significant numbers of people have HDTV equipment installed at home, but experimental applications of Japan's Hi-Vision HDTV system are having a profound impact in fields as diverse as broadcasting, printing, surgical medicine and horse racing.

The Japan Broadcasting Corporation (NHK), which developed the Hi-Vision system in a 20-year $700m programme, will begin hour-long daily HDTV broadcasts in June, via its BS-2 broadcasting satellite. It aims to have a full-scale HDTV service by the time of the Barcelona Olympics in 1992.

Hi-Vision first came before a wide audience during the 1988 Seoul Olympics. NHK established an experimental satellite link providing crystal-sharp pictures on 200 HDTV displays at 50 sites in Japan, including railway stations and shopping malls. Sports coverage proved an ideal medium for showing off the fine detail obtained with a 1,125-line screen (conventional sets have either 625 lines for the Pal/Secam systems used in Europe or 525 lines for the NTSC system used in North America and Japan), and the wide-screen images produced by digital format.

More recently the public has gained glimpses of other HDTV applications. In the field of audio-visual aids, the Museum of Fine Arts, in Gifu, central Japan, has opened a "Hi-Vision gallery", which provides a databank of information on the museum's collection – only a small percentage of which is exhibited.

In individual booths, or seminar rooms, users can call up on high-definition displays reproductions of all the art works owned by the museum. For reference purposes it is also possible to conduct a search for a particular painting, based on such information as the artist's name or nationality, the content of the painting or its date. Access can be gained to a detailed history of the work and its author.

Through exchange arrangements with museums overseas, a visual databank of each one's possessions is being compiled. Already the Soviet Union's Hermitage museum has said it will allow 100 of its works to be recorded on CD-Rom.

Another key area of Hi-Vision application is in the medical field. Doctors at Shinshu University have used Hi-Vision cameras to record the complex details of brain operations. This film, when projected on a large-format screen, has proved invaluable for demonstrating delicate operating techniques to other doctors or students, something which is not practical using conventional video equipment.

Toshiyuki Takei, deputy director of the Ministry of Posts and Telecommunications' HDTV promotion bureau, says that the digital-format film can become part of a patient's medical records, opening new avenues for emergency diagnostic work.

"Currently, because of the poor quality of video images, transmitted pictures of a patient cannot, by law, be used as the basis of medical treatment, but HDTV could facilitate this. For example, a local clinic could transmit images of an emergency condition to a city-based specialist and receive immediate advice on treatment," he says.

Japan's printing industry is also moving quickly to adopt HDTV technology. Dai-Nippon Printing Co, with NHK, has produced Mitsuko, the first illustrated book printed using digital data transferred directly from HDTV images.

Kikuziro Shikano, head of NHK's Hi-Vision division, says: "Whereas there is generally a line between the broadcasting and printing industries, in future there will be a greater integration of the two." Shikano predicts that eventually a single company would be able to handle all aspects of multi-media production, including filming, broadcasting, video packaging, printing, merchandising and promotion.

Other imaginative applications of Hi-Vision include a bookmaker in Nagoya, who is offering his customers Hi-Vision pictures of horses in the parade ring, and a restaurant chain which is planning to introduce a Hi-Vision system to display its menus, replacing the present plastic models.

But it is in the broadcasting field that HDTV will have the biggest impact. Kenji Aoki, managing director of radio and television at NHK, forecasts that within five years viewers of HDTV sets will be numbered in millions, and by the turn of the century a third of Japan's 32m households will have one.

Initially the sets for HDTV will cost between Y2m and Y3m (£13,000), but Aoki does not see this as prohibitive. "When conventional sets were first sold to the public the cost was similar to that of a car."

As part of its Hi-Vision promotion program, NHK has set up business subsidiaries, which reported sales of almost Y1.5bn last year, a figure Aoki says will double by 1990. The company has designated 10 "Hi-Vision cities", where local authorities will introduce public HDTV facilities.

NHK is also working on a bandwidth compression technology known as Muse (multiple sub-Nyquist sample encoding). This will allow transmission of the dense 27 MHz frequency HDTV signals over individual satellite channels, using an 8 MHz base bandwidth, and facilitate terrestrial broadcasting of programmes produced using the 1,125 line/60 hertz HDTV studio standard.

Efforts to effect the smooth introduction of HDTV in the broadcasting field include the promotion of an intermediate technology, extended definition television (EDTV), which uses digital image processing to offer improved picture quality on conventional systems.

Considering the revolutionary effects of HDTV, the advantages of introducing it in an orderly way become obvious. Aoki says: "Whenever a new technology arrives it tends to destroy the old order, but HDTV should be gradually and harmoniously introduced so as not to destroy the benefits of the conventional infrastructure and cause great losses."

This "harmonious introduction" is, however, critically dependent on the outcome of international negotiations over production standards, with Japan's 1,125/60 (1125 lines and 60 changes of the screen image every second) differing from the proposed European and US standards which feature a simple doubling of conventional 525 and 625-line images to give 1,050 and 1,250-line standards.

The Japanese are adamant that since it is the degree of incompatibility which is at issue, their 1,125/60 standard is the best option. They are quick to point out that the US and Canada supported Japan's choice of standard when it was submitted for approval before the International Telecommunications Union's Comité Consultatif International des Radiocommunications (CCIR), in 1987.

Toshio Horibata, of NEC's HDTV division is unequivocal on the issue: "The 1,125-line standard is technically and theoretically the easiest standard for conversion from all alternative systems. The 1,250 and 1,050 arguments are purely *political, not technical*."

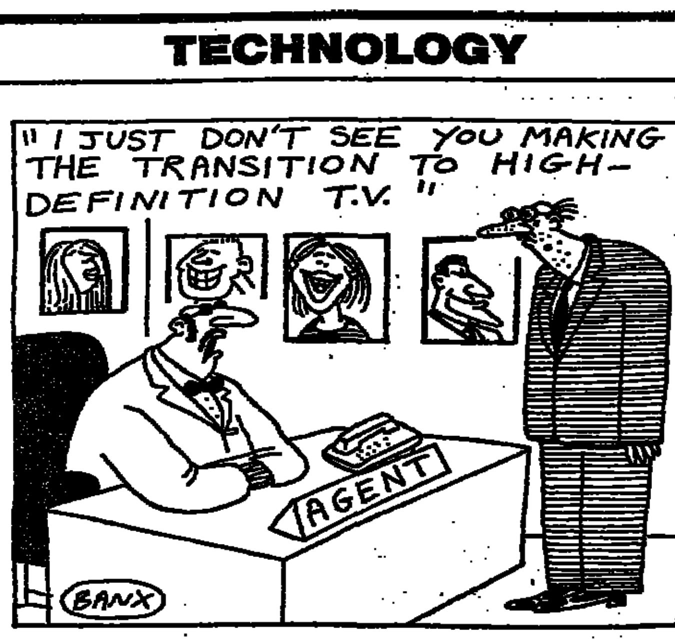
Asked why Japan chose a different standard, Horibata says: "We'd like to ask the same question of the US and Europe. If they had initiated this earlier, with a superior system, Japan might have followed. But in this case, Japanese industry led the way."

An alternative view is offered by industry analyst Steve Myers, of Jardine Fleming, who says: "Just because Japan has come up with a system first doesn't necessarily reflect its applicability to the world market."

With estimates of the potential worth of the global HDTV market in the $50bn range, Myers adds that "the issue is where the technology is going to roost. If the country (Japan) offers full and complete licensing for manufacturers, its system might be acceptable. But experience shows that Japan prefers to be a seller of goods than a licenser of technology."

Sony, which manufactures HDTV equipment, recently announced plans to expand its US-based research into the new technology, a move which it hopes will take some of the heat out of the standards debate. Its Sony Advanced Technology Center will research HDTV applications in Hollywood's motion picture and television industry. But a comprehensive resolution of the HDTV conflict rests in the hands of the CCIR.

Within Japan, however, enthusiasm for HDTV seems unrestrained, as exemplified by business tycoon Mamoru Kitamura, president of the Japan Golf Association, who recently paid a visit to the Gifu Museum Hi-Vision gallery. "I was so impressed I immediately ordered three systems – two for use in hotels and another for my head office."




## Safer way to clean aluminium

AGA, the Swedish industrial gases specialist, has developed a gas mixture which will improve aluminium production processes, but which is *not* dangerous to operators, equipment or the environment.

In both primary aluminium manufacturing and scrap recycling, the molten metal absorbs hydrogen from the air or the scrap. If this is not removed before casting, pores develop in the metal, reducing its strength.

Current methods of removing the hydrogen involve the use of chlorine, or chlorine mixed with other gases. Operators have to wear protective masks, and the acidic fumes that result if moisture is present can damage the plant.

The alternative has been Freon, a chlorofluorocarbon (CFC). Although this removes the toxic problems of chlorine, it is undesirable because it destroys stratospheric ozone.

AGA's gas mixture, the composition of which is not disclosed, is called Aluclean. It is said to produce better metal quality and higher metal yield, as well being harmless. The company will also provide the necessary equipment and engineering.

## A forest of electricity

THE UK's National Engineering Laboratory is examining the prospect of converting fast-growing willow and poplar tree "crops" into electricity, and has put the idea to the European Commission.

Each of these trees grows to a height of about 12 ft in three years, with a trunk diameter up to 2.5 in. NEL believes that with 2.5m acres likely to be taken out of food production in the UK, and perhaps 10 times as much throughout Europe, "bio-fuel" farming could prove an attractive alternative.

The proposed technique is to put a generating plant in the centre of a large growing area, a third of which comes up for harvesting each year. Automatic harvesting vehicles would chop the young trees and deliver them to a drying unit that uses waste heat from the generating plant.

A gasifier plant heats the wood to 1,000 deg C, with partial exclusion of oxygen to give carbon monoxide. The gas is used by an internal combustion engine which in turn drives an electrical generator. Power would be fed into the grid.

NEL says that the idea is environmentally sound because the combustion will produce no more carbon dioxide than the trees use for photosynthesis while growing.

## TV eye on the bar codes

PHILIPS, *the* Dutch electronics group, has launched a bar-code reader, called IdentiVision, which employs television techniques and can be used at two metres or more from the object to be identified.

Most industrial bar-code readers must be placed close to the object to read the bar-code label as the product passes. Philips says that television techniques offer as many scans of the code as there are horizontal lines in the television picture. Consequently, IdentiVision, which employs a solid-state camera with 240 scanning lines, is better able to deal with dirty or misaligned labels.

Video signals from the camera are passed to a code-detecting digital circuit, which can deal with four cameras at the same time. In complex systems, up to 28 cameras can be served from a standard 19 in rack.

In a typical identification system in a factory, the camera will read the code on each product on an assembly line, identify it and automatically route it by conveyor to the appropriate workstation or process. In warehousing, IdentiVision can form the basis of a computer-controlled automated storage and retrieval system.

## Miners screened from falling rocks

TWO Canadian companies, Spar Aerospace and Inco, have developed an automated system which protects miners by automatically applying overhead screening from falling debris, writes Robert Gibbens.

The system is built with off-the-shelf computer systems and conventional *rock drilling equipment*.

The 40-tonne prototype machine rides on the front of a heavy-duty forklift vehicle. It automatically dispenses a sheet of heavy gauge metal screen, holding it in place while holes are drilled in the rock face and long bolts are rammed in to stabilise the rock.

Sensors linked to the controlling computer rotate the drill head so that it follows the uneven rock face. The operator can direct the machine while standing in a protected part of the tunnel.

## WORTH WATCHING

Edited by Geoffrey Charlish

## Buyers' guide to optical storage

CIMTECH, the National Centre for Information Media and Technology at Hatfield Polytechnic in the UK, has published a buyers' guide to optical disk storage and document image processing.

Such systems are becoming important to organisations that need easy access to original documents and increasing amounts of equipment are coming on to the market. These systems allow a lot of space to be saved and mean that a document's image can be brought up on screen in a few seconds.

The 36-page A4 booklet, costing £18, lists 26 optical disk drives, 29 sub-systems, 24 jukeboxes, 51 image processing systems and 68 UK addresses of makers and suppliers.

Cimtech is sponsoring a conference on the subject with Meckler, the London publisher, from May 15 to 17 at the Novotel hotel in London.

CONTACTS: AGA: Sweden, 8 731 1000. NEL: UK, 03552 72237. Philips: UK, 0223 358866. Spar Aerospace: Canada, (514) 457 2150. Cimtech: UK, 07072 79691.

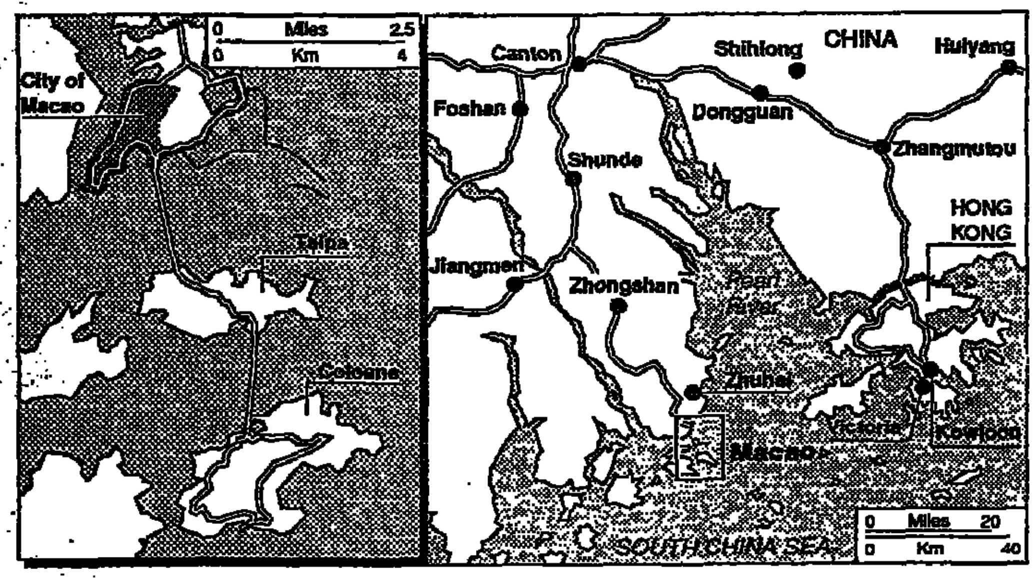
# FINANCIAL TIMES SURVEY

## Portugal's enclave of Macao, unlike nearby Hong Kong, appears quietly confident as it prepares for the handover to Chinese rule in 1999. But the Portuguese may be moving too late to open up the judiciary and administration to the majority ethnic Chinese, writes John Elliott

# A welcome seachange

Festivities outside the facade of St Paul's Cathedral, one of Macao's oldest attractions

Ashley Ashwood




# MACAO

TUCKED away in a corner of the low green hills and wide silty estuary of China's Pearl River Delta lies Macao, a tiny Portuguese enclave of 17.4 sq km which was a focal point for traders with the Orient three to four hundred years ago.

It has been a territory of Portugal for over 400 years, but its days of swashbuckling prosperity declined once the British took over Hong Kong in the 1840s. Since then this stylish, if somewhat faded, meeting-point of the Orient and the West has lived in the shadow of its aggressive neighbour 40 miles away across the Pearl estuary.

Today, after more than 100 years of relative obscurity, Macao is again attracting international attention because it is preparing to be returned to China in 1999, two years after Hong Kong. The prospect of the handover is less traumatic than Hong Kong's because there is little consciousness of a colonial status.

It is a much more easy going place than Hong Kong where the per capita gross national product is 40 per cent higher than Macao's $5,725. Somehow the Portuguese attitude of *mañana*, mixed with the complex Chinese character of refugees from Peking's regimes, has not produced the same frenetic competitive life-style that thrives in the British colony.

"Macao is a migrant society. Some 60 per cent of the population are first generation immigrants who arrived in the last 15 years," says Bishop Domingos Lam, appointed last year as the first ethnic Chinese to head Macao's Catholic church.

"This first generation works hard to establish their lives. The second generation tries to go abroad and if they fail then it's the third. Then they establish themselves and sponsor their older relatives to go as well – 20 to 30 years ago we had 200 funerals a year, now there are only about 80 because all the old have gone abroad."

Gambling provides 40 per cent of the Macao government budget, thanks to the casino spending of punters from Hong Kong who make up 80 per cent of the annual 5.5m tourist arrivals. The rest of the economy is heavily dependent on textiles which account for 74 per cent of exports. Growth in gdp slowed down last year from 12 per cent in 1987 to 7.4 per cent, partly reflecting slower growth in southern China and Hong Kong.

There might be gradual expansion on a broader base because China, despite its current economic problems, is investing widely, most significantly by helping to build an international airport. There is also hope of substantial investment from Taiwan.

"The airport will totally change our capability in economic and industrial terms," claims Mr Carlos Melancia, a former Portuguese government Minister who has been Macao's development-oriented governor for the past two years. "The airport was not built before because it was not feasible just for Macao – now we have China deciding it is important for the region."

But while the economy might slowly benefit from the 1999 build up, Macao has enormous administrative problems to overcome and there is inevitable apprehension about whether China will honour pledges it has made about allowing Macao considerable economic and political autonomy.

Confidence is not so fragile as it is in Hong Kong. This may be partly because there is less to lose in this relative backwater, and partly because Portugal will by 1999 have issued European Community passports to about 130,000 people, which provides them with an insurance. There is also a general feeling that China will not interfere in Macao because any disruption would hit confidence in Hong Kong. Any problems in these two territories could be a setback for China's other main aim of eventually absorbing Taiwan as well.

Administratively there are major problems to overcome because, unlike the situation in Hong Kong, there are no top ethnic Chinese civil servants and lawyers to run Macao after 1999. Portugal has done virtually nothing to open up the posts in the civil service to the local Chinese, all originally migrant families from China, who make up 98 per cent of the 440,000 population.

Basically these jobs are at present filled by 2,000 Portuguese and people from the 8,000 to 10,000 strong Mecanese community – Macao's name for its Eurasians – who identify with the Portuguese. Many of the Mecanese are expected to leave in the next decade.

Politically Macao has changed dramatically in the past 25 years. Riots in 1966 during China's Cultural Revolution made Portugal accept that Macao could not survive independently of Peking.

Since then Peking has exercised considerable – but not total – influence. The official contact route has been through the Peking-owned Nam Kwong trading company, which performed diplomatic functions till China's Xinhua News Agency opened. But more significant have been the links of senior Macao Chinese businessmen who dominate the chambers of commerce, residents' associations and trade unions. They have consulted Peking on all major issues.

Power in the enclave's legislative council was shared for years by these pro-Peking local leaders and a Mecanese-Portuguese group. Between them they fixed elections so that the Portuguese would stay in a visible majority, while accepting Peking's influence. That comfortable existence ended in a series of upheavals in 1984.

In the 1984 elections a liberal populist Chinese-born figure, Mr Alexandre Ho, won a seat on the legislative assembly and his group has strengthened its position in further legislative elections last autumn and district elections a few weeks ago.

"The old forces want prosperity for themselves not for the people. They are obstacles to the development of Macao," says Mr Alexandre Ho. "They never propose new ideas themselves and always ask what Peking thinks before they adopt any opinion – they are Peking's loud-speakers."

Mr Melancia sees Mr Ho's emergence, which he welcomes, in the same light as the appointment of Bishop Lam. "They represent a view among the people who want to defend and develop Macao itself, he says.

Mr Ho, aged 42, is a Catholic who has developed from a community worker into a populist politician. Some people suspect he has been groomed as a future leader by the church, which provided him with an educational scholarship in Europe. Whether that is valid or not, he reflects a change of attitudes since the signing of the 1985 Sino-Portuguese Joint Declaration on the 1999 handover. Peking is no longer merely a distant power that has to be appeased, but a somewhat feared future ruler.

On the other hand, Peking, which disliked the changes which brought Mr Ho to prominence in 1984, may now see some advantage if his activities release some social pressures ahead of 1999. He says he knows Macao has to "live with Peking because we are not as strong as Hong Kong – so we cannot go against Peking like the Hong Kong liberals."

Macao's current economic development took off in the early 1960s when the gambling monopoly franchise was given to Mr Stanley Ho, a Hong Kong businessman whose Sociedade de Turismo e Diversoes de Macao (STDM) company is now one of the most powerful economic forces in the enclave. "In those days Macao was a dead city – it took four hours by boat by Hong Kong," says Mr Ho. "There were substandard hotels and casinos where croupiers wore creepers and singlets."

Growth in textiles was the next stage of development about 20 years later. "In the early 1980s the Multi-Fibre Agreement (MFA) pushed Hong Kong textile companies to Macao to take up space in our quotas," says Mr Galhardo Simoes, secretary for economic affairs.

Mr Simoes now optimistically sees investment from Taiwan as the third stage of Macao's development. It would also be a counter-balance to Mr Stanley Ho's STDM casino and hotel-based empire. "It is useful to have some form of economic power other than STDM – that is politically desirable," says Mr Simoes.

"Taiwan is for Macao what the MFA was in 1980, and it will give us the diversification of industry that we need. Macao is the bridge for Taiwan. Its businessmen can get confidence here with us keeping the capitalist system after 1999. We hope they will come for electronics and higher technologies than textiles. They are interested in exporting low and medium technology industries – we are interested only in the medium levels."

Mr Simoes also hopes to set up a Macao Development Bank with funds from Portugal, Hong Kong and elsewhere. The Bank of China refused last year to be the primary investor because Macao rejected its proposal that the Government should be the majority shareholder.

Inevitably opinion and confidence about the future vary, though most people agree that the next 10 years could well be buoyant and that Macao would grow rapidly if the new airport were a success. If Peking's economic liberalisation policies continue, it will also have a major role to play in the development of the Pearl Delta within China's overall coastal strategy.

Even if Peking's policies are trimmed back, Macao could still continue on a faster economic development path than it has enjoyed in the past.

## CONTENTS



## KEY FACTS

**Status:** Chinese territory under Portuguese administration. Reverts to Chinese adminis tration Dec 20 1999
**Area:** 17.4 sq km – Macao City and Taipa and Coloane islands
**Population:** 443,500 (97% in Macao City) incl: 2,000 (est) Portuguese; 8,000-10,000 (est) Mecanese (Portuguese and Chinese ethnic descent); 432,000 (est) Chinese
**Currency:** Pataca (Ptcs)
**Exchange rates:** Ptcs 8.01 = $1; Ptcs 1.03 = HK$1; Ptcs 13.46 = £1
**Gross domestic product** (1988 est, current prices): Ptcs 20.3bn; per capita income: $5,725; growth (1988 est): 7.4%
**Registered labour force:** 200,000
**Foreign exchange reserves** (end Jan 1989): Ptcs 2.3bn
**Source:** Macao Government

John Elliott on the moves under way to ease the handover to China

# Enclave's bumpy road towards 1999

THE BANK of China is about to make its presence felt in Macao in the same way that it has done in Hong Kong, where its dramatic new office building is not only the highest structure in the colony, but also towers over the nearby headquarters of the proud Hong Kong and Shanghai Banking Corporation.

In Macao the bank is building a 40-storey block on the waterfront which will not only be the highest building in the enclave, but will also symbolically tower over the nearby garish wedding cake-style Lisboa Hotel and casino, flagship of the gambling and entertainment empire run by Mr Stanley Ho, Macao's most powerful entrepreneur.

The statement will be gentler and the building seems less likely to cause the *fung-shui* fear of evil spirits that are predicted to pierce outwards from the angular Hong Kong structure. But it is still a symbol of the political and administrative, as well as economic, changes which must take place as 1999 approaches.

In a formal way Macao's preparations for 1999 parallel Hong Kong's. A Joint Declaration was signed in April 1987 by Portugal and China, guaranteeing Macao's future after 1999 as a Special Administrative Region (SAR) of China with a "high degree of autonomy". The declaration closely follows the wording of the Sino-British Hong Kong Joint Declaration of December 1984, with only minor variations.

A Joint Liaison Group has been set up to monitor developments and a Basic Law is being drafted for ratification in 1993. From July 1, Chinese is progressively to be given the same official status in the law and government as Portuguese.

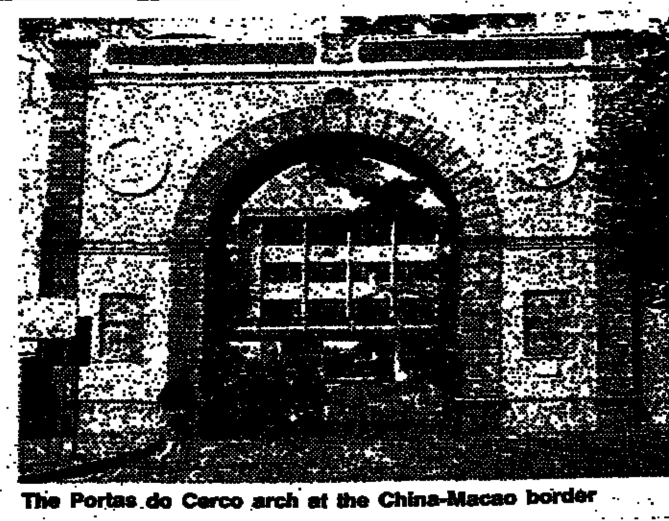
Portugal is issuing European Community passports to 90,000 people – predominantly ethnic Chinese, many of whom do not speak Portuguese. They qualify because they were born before 1980-81 when Lisbon changed its immigration laws. After that date only the descendants of the 90,000 can obtain passports. This is expected to add another 40,000 by 1999, when China wants Portugal to agree to issue no more passports in the enclave. Portugal has not yet agreed to do this.

The existence of the passports – denied so far by the UK to Hong Kong people – could help to bolster confidence. But Macao is basically ill-prepared for the changes it has to face because of the way it has been run in the past by Portugal. On the one hand Portugal has co-operated with Peking on policies far more extensively than the UK would have ever deigned to do over Hong Kong.

But, unlike Hong Kong, it has until recently done nothing to assimilate local Chinese people into senior government and police posts and into the professions; nor to encourage Chinese higher education or cultivate local Chinese opinion. So it is facing a crisis over language and over what is called the "localisation" of the civil service and legal profession.

At present Macao is run by Portuguese, mostly on temporary postings from Lisbon, who do not speak Chinese and frequently communicate with local staff in English. They are helped by ethnically mixed Macanese, who identify with Portugal, rather than China, and usually speak but do not read Chinese – they usually have Chinese mothers, who teach them to speak Chinese, but attend Portuguese schools.

But by 1999, according to the Joint Declaration, Macao should be run by local ethnic Chinese, with some help at lower levels of the administration from Macanese and Portuguese who want to stay.



The Portas do Cerco arch at the China-Macao border

It is assumed, however, that virtually all the 2,000 Portuguese in Macao will leave. No-one is sure whether many of the 8,000-10,000 Macanese who have Portuguese passports will stay. They include people in important middle-senior government jobs as well as the professions and business. Many of these Macanese will be among 4,000 civil servants and police who are being offered jobs in Portugal.

**Macao is basically ill-prepared for the changes it has to face because of the way it has been run in the past by Portugal**

"Their presence is good and useful because they demonstrate that Macao is different from China's other cities," says Mr Alexandra Ho, the local Chinese populist figure who has emerged as a significant liberal voice in the past five years. "If they emigrate it would lead to a loss of confidence, but we – and China – will not want them to keep their privileges."

But whether the Macanese stay or leave, the basic problem is how to develop the local born ethnic Chinese who make up 98 per cent of the community and generally do not speak Portuguese. The government *has set itself an ambitious* target of raising the number in the administration from 12 per cent at present (this figure includes Macanese) to 70 per cent within five years.

However, Mr Carlos Melancia, the governor, does not think they will be ready for the top policy department jobs in time for 1999 – so some Portuguese could still be needed after the hand-over. Locals also have to be trained for senior police and border security force posts to replace seconded Portuguese army and navy officers.

There are also problems over the legal system because all laws are in Portuguese. There are no Chinese lawyers and very few Portuguese lawyers speak Chinese. Macao is having to borrow lawyers from Peking to translate the enclave's laws. The enclave's court of appeal, now in Lisbon, is to be moved to Macao within five years. But no decision has yet been taken about setting up a final court of appeal, which is provided for in the Joint Declaration.

To help solve these problems the government last year bought the University of East Asia, a modern, educational building on Taipa island, from Hong Kong businessmen who were running it as a private institution for largely Hong Kong students.

It is starting courses in law, public administration and engineering, and might also open a medical school for pharmacists, nurses and doctors. This is in addition to degree courses it has inherited in business administration, social sciences, languages, plus polytechnic courses in computing and hotel management, and a section devoted to A levels.

The university has 2,000 students, 60 per cent of whom are now from Macao, and it will probably be re-named the University of Macao. The Government hopes its degrees will soon be recognised in Europe and China.

Portugal wants to leave some of its culture behind in Macao in an active form in 1999, and would like the university to continue some Portuguese traditions and act as an academic bridge between China and Europe.

BISHOP DOMINGOS LAM

# High priest of reconciliation

Bishop Domingos Lam

"The question for me is how I can be a channel of dialogue between the two worlds," says Bishop Domingos Lam, the first Chinese-born head of Macao's Roman Catholic church.

Appointed at the end of last year, he has good contacts in Peking and is anxious to make his church understood by China's leaders so that they do not see it as a threat to their authority which might need to be curbed.

"Oriental or Buddhist religions do not have jurisdiction over people outside their temples, so they do not worry political leaders. But the Catholic religion does have jurisdiction and a hierarchy to the Pope – it is very difficult to explain this to Communist cadres."

To help break down barriers, Bishop Lam does not have a cross on his cards. Instead there are Chinese symbols meaning "taking virtue to the highest place, being broad in literature, adore the Almighty, and spread gospel." He translates this with pride and says: "A Chinese person, to whom a *cross would mean nothing*, sees this and immediately knows I am a high priest."

Although 55 per cent of Macao's children are in Catholic schools, there are only 25,000 Catholics. Macao is a "migrant society", with most families leaving within two or three generations. Bishop Lam's family came to Macao around 1850 and all his relatives are now in Australia, the US or Canada.

He dresses casually, refuses to move into his official residence, and sometimes takes a guest to a hamburger bar for lunch. An amateur demographic expert fascinated by his computer records, Bishop Lam is philosophical about how Macao's "migrant society" works.

"The migrants come from China with no money and no God. They build up their wealth and in their prayers to God say that they will not have time for him till later because for 20 years they struggle for a good job, a good girl, a flat, then furniture, a baby and a car. Those who do well have maybe four children to celebrate their freedom from China's restrictions."

JE

Historical background

# Time ripe for the transfer

WHEN THE Portuguese first arrived in Macao in the early 1550s, they landed on a promontory at a shrine of A-Ma, the seamen's goddess. The temple, which still stands today overlooking the mainland of China near the entrance to the inner harbour, was called Ma Kok and gave Macao its name.

The trading centre which the Portuguese developed by the 1550s could still today be the region's major entrepôt with China, and a glittering international commercial and financial centre. But it was eclipsed into a stately and stylish backwater when the British took Hong Kong in the 1840s, and it has lived in the shadow of its rampantly successful neighbour ever since.

Macao's greatest period started in the 16th and 17th centuries when it was turned by the Portuguese into the world's major trading port between the Orient and the west, and between China and Japan, dealing in silks, gold, spices and opium. It was also a swashbuckling base and summer retreat for British traders of the East India Company operating up the Pearl River in Canton.

The Portuguese fought off invasion attempts by the Dutch and British, as well as bids by the Chinese to oust them. A treaty of 1887 declared that "Portugal will forever administer Macao". But after its 1974 Socialist revolution, Portugal gave up its colonies and tried to hand Macao back to China – without success. Peking said the "time was not ripe".

However in 1976 Portugal underlined its anti-colonial stance and declared Macao a "territory under Portuguese administration". In 1979 it negotiated a new diplomatic agreement with China which underlined the end of a colonial era, calling it a "Chinese territory under Portuguese administration".

There things might have rested had it not been for China's decision in the early 1980s – confirmed in 1983 – to force the UK to hand back its sovereignty of Hong Kong 1997. It was soon clear Macao would follow, albeit two years later than Hong Kong.

JE

"Localisation" of the civil service is the biggest challenge

# Lisbon's unenviable record

MR CARLOS Melancia, the governor of Macao, acknowledges that Portugal has done "too little in the past" to develop the territory and give ethnic Chinese a voice. With the backing of Lisbon – and Peking – he hopes to change that record.

Appointed two years ago from an engineering and political background, Mr Melancia is the latest of a long line of governors sent out by Portugal for what have often been controversial terms of office. One was murdered in the 17th century, and another was beheaded in the 1850s. Many have continued dabbling in Lisbon politics, often seeking a better posting back home, while also immersing themselves in Macao's complex intrigues.

If history finds 61-year-old Mr Melancia controversial, it should be for more positive reasons. Holding office at a turning point in Macao's history, he is personally critical of the past and knows he has to mobilise a decade of rapid change and development that will not please some local vested interests.

"I think it is very important for the future that we have more Alexandra Hos in Macao – that is my point of view," he says, referring to the populist liberal figure who has challenged the territory's traditional political forces in the past five years.

He is frank about the wheeler dealing on legislative assembly elections that used to take place between the Peking-linked local Chinese business leaders and the Portuguese community. "That was not my activity, but the local forces did have the habit of negotiating a list and organising the support of the people. But then they lost to Alexandra Ho," he explains.

"This is a good sign of political autonomy in Macao in my point of view. The conventional political forces in Macao are facing in Mr Ho someone connected directly with the territory and its problems. This liberal development is very important for the future of the assembly because these people are more connected to Macao than to Portugal or Peking."

Mr Melancia qualifies his admission of Portugal's past failings by pointing out that his country had major problems to contend with in its other much larger ex-colonies, such as Angola and Mozambique. This "reduced Macao to a small territory" in Lisbon's list of priorities.

Now Mr Melancia believes that his country is "in a position to do more". The old colonies are gone. Portugal can make use of its position as a member of the European Community, and China is taking a greater economic interest.

The governors are appointed by Portugal's presidents – so their political leanings follow Lisbon's. Thus Mr Melancia, appointed by President Mario Soares, is a Socialist. Like his predecessors, he brought his own people with him when he arrived to fill Macao's five top government posts as secretaries (or under secretaries as the Portuguese equivalent sometimes becomes in translation) of policy departments.

The system means that all these top five civil servants – cum – ministers, plus some of their departmental directors, suddenly change along with the governor. Mr Melancia personally agrees this is "not good for continuity" and says he wishes he could change the system.

He intends to reshuffle the posts later this year, probably appointing one secretary to look after all 1999 matters, and will also streamline the administration, reducing the number of department directors (the rank under the secretaries) from 23 to 10.

This is linked with the issue of "localisation" of the civil service where there are at present no Chinese anywhere near the top of the system. Bringing Chinese – and the mixed race Macanese – to the top is "the most difficult and important problem we have," says Mr Melancia. "It is more difficult to solve this problem than to build the new airport because we have not in the past prepared people with a high level of education".

Carlos Melancia, the governor of Macao

Personally he believes that it will take "15 years minimum" to get ethnic Chinese Macao people into the top posts, so there will be none there by 1999. "We are beginning to talk about this with Peking. It is my view that Portuguese officials will have to stay, serving Peking, after 1999 at a top level." That would be in addition to Portuguese occupying more junior posts, which is provided for in the Joint Declaration.

Language is a key problem. Twice as many Macao people speak English than Portuguese. So English will have to be used more. "We cannot fight against this reality. Cantonese will be the main civil service language, with English as the main back up language".

Mr Melancia is a firm supporter of Lisbon's offer of Portuguese passports to 90,000-130,000 people and of jobs for public servants. "We are practically sure that if we give people the warranty to go, it will help confidence and will in fact be a permit for them to stay. Not to give passports is a licence to go."

JE

ZHUHAI

# Economic zone all at sea

DRIVE from Macao's waterfront through the older part of the city, past flattened factories and a sea wall topped by a barbed wire fence to deter illegal Chinese immigrants, and you come to a ceremonial arch, the Portas do Cerco. Beyond is China in the form of Zhuhai, an old fishing village which since 1979 has grown into a modern city of 466,000 people.

Zhuhai is the home of one of China's four special economic zones, covering 121 sq km and accounting for 140,000 of the city's total population. This zone has always been overshadowed by Shenzhen, the largest of the four, which thrives because of its location on the other side of the Pearl River Delta next to Hong Kong.

On the surface Zhuhai is an impressive and clean Chinese version of a modern satellite industrial city with wide dual carriageways and modern looking commercial and industrial buildings. It also has a four-year old Japanese-run 6,000 metre golf course, one of three in the Pearl Delta. Another, designed by Mr Arnold Palmer, is located outside the city.

But industrial development has been slow and Zhuhai is one of the smallest of China's 19 coastal industrial cities and economic zones. The main industries are textiles, soft *drinks and other foodstuffs*, building materials and electronics, which includes an all-Chinese joint venture producing television sets for Gold Star of Shanghai.

Most of the $600m of foreign investment reported in government statistics – including $218m spent last year – has been channeled through Hong Kong and Macao and there are few significant international joint ventures.

A possible agreement to set up a television factory with a South Korean company is being negotiated. Japanese companies are taking some interest. In addition to the golf course, there is a Japanese textile joint venture and an offer to take over Zhuhai's brewery on a 15-year contract.

One of the main hopes for the future is investment from Taiwan. So far there are only about 20 small ventures in operation but a small "Taiwanese village" is being mooted near the border gate with Macao.

Government officials claim that recent upheavals in China's economic policy and expenditure cutbacks have *only had a marginal impact*. Non-productive construction projects such as hotels and sports centres have been stopped for the next two years.

Mr Leong Kwong Tai, the mayor, talks ambitiously about future developments of a deep water harbour and container terminal, a 3m kW thermal power station, petrochemical and heavy industries, and a new railway in addition to a highway now being built from Shenzhen towards Zhuhai.

Some of these projects may *never happen. But Zhuhai*, with Macao's planned new airport as its gateway to the outside world, clearly has a role to play in the development of the western bank and hinterland of the Pearl River Delta.

JE

ECONOMY

# Overshadowed by Hong Kong

FOR YEARS Macao's economy has lived in the shadow of Hong Kong. Now, as the enclave enters its final decade under Portuguese administration, the balance is changing. China is playing a growing role in what could turn out to be a period of major development and growth, and the Government hopes for substantial investment from Taiwan.

Already China controls more than 60 per cent of the enclave's domestic banking activity, mainly through the Bank of China, and has a 25-33 per cent stake in the proposed new airport to be built soon.

It is providing the majority of the funds for a dramatic property boom, which is changing the face of part of central Macao with high rise buildings, and is involved in land reclamation projects and small industrial joint ventures. It has also provided most of the 6,000 workers imported in the past year to supplement the enclave's 200,000 labour force, which is virtually fully employed.

"China's line is clear – they have the 1999 agreement and they want to keep Macao going," says Mr Galhardo Simoes, Secretary for Economic Affairs. "They intend to take the economic control before they take the political control – that is good because they want to keep the confidence going and the economy running."

But China will not replace financial and other links with Hong Kong. The Macao pataca is firmly linked to the Hong Kong dollar, and thus to the US dollar, at a fixed rate of around HK$7.80. For this reason, interest rates follow Hong Kong's, and general economic performance mirrors that of the British colony.

Growth in gross domestic product slowed last year to 7-7.5 per cent from 12 per cent in 1987, and there was no growth in merchandise exports *in real terms after a 13-14 per* cent increase in both the two previous years. But invisible earnings rose 14 per cent, and the economy remains financially strong.

**Macao exports by sector (Patacas m)**

| | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|
| Textiles/garments | 5,112.1 | 4,946.9 | 6,017.6 | 8,257.8 | 8,856.0 |
| Toys | 733.2 | 824.4 | 1,016.1 | 1,108.6 | 1,225.5 |
| Electronics | 323.2 | 258.1 | 351.7 | 258.3 | 131.0 |
| Artificial flowers | 277.7 | 200.8 | 245.9 | 270.3 | 286.0 |
| *Leather* | *152.4* | *174.6* | *171.6* | *213.3* | *229.0* |
| Ceramics | 47.0 | 57.1 | 71.0 | 110.6 | 130.0 |
| Optical products | 49.0 | 50.3 | 66.9 | 94.5 | 89.0 |
| TOTAL | 7,304.9 | 7,180.9 | 8,630.2 | 11,233.5 | 12,003.0 |

Source: Government statistics

**Exports by market (Patacas m)**

| | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|
| France | 747.4 | 755.3 | 1,027.3 | 1,082.1 | 1,067.0 |
| West Germany | 774.9 | 717.8 | 982.2 | 1,398.0 | 1,455.0 |
| UK | 492.2 | 431.7 | 622.0 | 790.5 | 923.0 |
| EC total | 2,521.1 | 2,284.9 | 3,150.0 | 4,076.4 | 4,275.0 |
| US | 2,218.6 | 2,324.5 | 2,872.7 | 3,753.4 | 4,098.0 |
| Hong Kong | 1,468.6 | 1,305.6 | 1,350.1 | 1,738.4 | 1,683.0 |
| China | 378.2 | 478.9 | 330.2 | 428.5 | 450.0 |
| Japan | 110.6 | 140.7 | 130.4 | 245.5 | 429.0 |
| Australia | 136.8 | 144.2 | 204.7 | 192.3 | 237.0 |

Source: Government statistics

Gambling – which is substantially funded by visitors from Hong Kong – grew by about 20 per cent last year and provided 40-45 per cent of the government's pataca 3.08bn annual budget, although it only accounts for 14 per cent of gdp.

Inflation rose to around 8 per cent last year and is now about 9 per cent, following Hong Kong's upward trend. Officials are hope for a period of increased exports and that the import of labour will help to clear bottlenecks that may have slowed growth last year.

But despite its buoyancy, Macao has yet to see the economic growth of which it has always dreamed. *It failed in* the first half of this decade to set itself up as a independent international financial centre, partly because it did not have the necessary infrastructure in terms of communication, law and language in place before the early 1980s international fashion for off-shore banking *centres faded. Off-shore* banking legislation was introduced in 1987 but there are only two registered off-shore banks, both Portuguese.

Competition for domestic business was stepped up in 1983 when nine banks from Europe and the US were allowed into what had been a mainly Portuguese domain. The Bank of China leads with between 50 per cent and 60 per cent of domestic deposits.

Second place is shared by the Portugese Banco Nacional Ultramarino and the local Tai Fung Bank which since 1984 has been 50 per cent owned by the Bank of China. New banking legislation now being planned might encourage more competition.

Government control of the enclave's monetary affairs is being strengthened with the *abolition* of the nine-year *old* Instituto Emissor de Macao, a quasi-private sector central banking organisation. Its departments, responsible for supervising banking and insurance, plus the management of government reserves, will come under a new Monetary Authority of Macao headed by a co-ordinating council with the Secretary for Economic Affairs as chairman. The authority will have the power to issue Macao's currency, *which will continue to be dele*gated to the Banco Nacional Ultramarino.

Macao has also failed to diversify its industry away from textiles, which account for 74 per cent of exports. Now the Government hopes that possible medium-level technological investments from Taiwan will provide the electronics growth that has eluded the enclave in the 1980s.

Construction is the sector with most growth potential because of major *projects such* as the airport and an associated bridge, a small container port now being built, and ambitious land reclamation schemes designated for industrial and commercial development.

There is also a massive property boom with office prices rising 40 per cent last year. This is being partly fuelled by investors driven out of Hong Kong's spiralling property market. Most of the momentum, however, is coming from China whose *provincial* government organisations are buying into projects often put together by Hong Kong and Macao developers and then financed by the Bank of China with 25-year loans covering up to 80 per cent of the cost.

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TRADE

# Diversification key to growth

WITH ITS tiny domestic market and few natural resources, Macao has relied upon export – led growth to build up a manufacturing base to complement its highly successful service sector activities in tourism and gambling.

Macao's exports during 1988 totalled about patacas 12bn, up from patacas 11.23bn in 1987, although after adjustments for inflation *this represents zero* growth. Some 34 per cent of all exports were bound for the US, 36 per cent to the European Community and 24 per cent to Asia and the Pacific.

Imports were valued at patacas 10.38bn, of which more than two thirds were made up of raw materials. Although Macao has a range of industries such as traditional furniture making, ceramics, toys, electronics and optical products, the textile and garment sector still accounts for the *bulk of its exports*.

This reliance upon one sector, particularly one which has been the target of the protectionist lobby in major markets such as the US, has prompted an official government policy of diversification into electronics and toys.

But such moves have not *been aided by market forces*. After contributing 70 per cent to total exports in 1986, the share of textiles and garments actually rose to 73 per cent in 1987 and 1988. "We would like to have a more sound industrial base," said Mr Galhardos Simoes, secretary for economic affairs. "It is better not to have all your eggs in one basket."

As far as attracting overseas investors is concerned, Mr Simoes sees the primary task as one of "puting Macao on the map." In particular the Government has high hopes of attracting technological and industrial investment from Taiwan, though so far Taiwanese money has been going into other sectors such as hotels and real estate.

Major commitments to industry are scarce, though Mr Simoes argues that the Govern*ment is anxious to attract* the right kind of industries, such as those which would not harm the environment and which are not labour intensive. Two such examples are new plants which will soon begin producing electronic parts for computers, one owned by Infotech Pacific and the other by Belfus. This despite the fact that the electronics industry is in general experiencing difficulties in establishing itself.

"Land is a big problem in Macao," said Mr Manuel Mouzinho, deputy director of the economic services department, which is responsible for attracting overseas investment. In order to help ease this problem the Government has plans for a large industrial park on reclaimed land near the site of the new airport.

An incentive package is also currently being put together for industry, which should include tax breaks and grants for suitable industries and subsidies for equipment or land for prospective factory space.

According to Mr Vitor Ng, president of the Macao Exporters' Association, the enclave's manpower shortage poses the biggest obstacle to further industrial development. Like many industrialists Mr Ng would like to see a much freer policy on imported labour than the one introduced in February 1988, which has so far attracted around 6,000 workers.

Permission to import additional manpower is granted on a case by case basis, with the needs of the employer, type of industry and effect on wages taken into account. The wages of foreign workers, who are required to pay boarding and other expenses themselves to an official Chinese agency which arranges their contracts, are pegged to local levels.

Local trade unions oppose this system arguing that their wages are being eroded by a flood of foreign workers, a claim denied by Mr Simoes.

Michael Murray

TEXTILES

# Quotas beef up the garments trade

DESPITE the Macao Government's attempts to promote diversification, textile and garment production continue to dominate the manufacturing sector, employing around 60 per cent of the workforce.

The local garment industry first began to flourish when quota limits were established for textiles under the 1973 Multi-Fibre Arrangement (MFA), prompting many Hong Kong manufacturers to look to new production centres which could build up their own quota holdings.

Nowadays hundreds of factories exist in the enclave, busily turning out trousers, shirts and blouses bound for the European and US markets. Production techniques are a mixture of piece rate sweatshop labour and automation, with certain stages of production, such as pattern cutting, using computer technology.

Signs outside multi—story factory buildings advertise vacancies, with wages starting at around patacas 70 a day including overtime and bonuses. Many people work a 12 hour shift with a one hour break for lunch and, typically, only one day off per fortnight.

One of the largest garment manufacturers in Macao is Tac Cheong, a subsidiary of the Hong Kong-listed Yangtzekiang group, which employs more than 900 workers, 100 of whom have been contracted in from China. Tac Cheong makes a wide range of well—known brand names, including Yves San Laurent and Van Heusen shirts. At its factory racks of clothes for big UK retail chains such as Littlewoods and Debenhams sit labelled and ready for shipment.

Not all textile exports are subject to quota, but over two thirds of garments made in Macao are made up of restrained items, with strict country of origin rules having to be observed. Whereas other industries can take advantage of lower wages and more plentiful labour elsewhere, the garment manufacturers are tied to Macao by country of origin considerations.

For this reason, Mr Vitor Ng, president of the Macao Exporters' Association, thinks it is possible that the territory's reliance upon textile exports may actually increase over the next few years. The MFA comes up for renewal in 1991 and, despite talk of changes to the quota system, few expect any radical departure from the present system. Certainly no one is predicting global free trade in textiles. This will protect the garment industries of places such as Macao and Hong Kong from new low cost competitors by freezing market share by quota. "Macao has been protected by protectionism," said Mr Ng, pointing to this ironic side effect of the MFA.

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Transport infrastructure

# Long awaited lift-off

IF MACAO needs one thing more than anything else to give its economy a boost, it is some form of direct and independent access to international transport networks. At present the only land access to the enclave is through southern China. There is no airport, and the surrounding waters of the Pearl River Delta are shallow and silty, so visitors fly to Hong Kong and take a one-hour hydrafoil ride to Macao.

That should change in 1993 when a single-runway international airport is scheduled to open off shore from Taipa island. It will give direct road access via a planned new bridge through the southern Chinese special economic zone of Zhuhai to a super-highway running round the Pearl Delta to Canton and Shenzhen, adjacent to Hong Kong.

Macao has been planning an airport for several years, but seemed unlikely ever to find enough funds to go ahead until a few months ago when China agreed to help finance the project and to drop a rival plan for an airport at Zhuhai.

This means that by the end of the 1990s, in addition to Macao, the Pearl Delta region will be served by a major new international airport now being discussed in Hong Kong, an existing international airport at Canton which at present is only served by China's own airlines, and a projected domestic airport at Shenzhen.

There were earlier ideas for a joint Macao-China airport on the other side of the border in Zhuhai, or on a nearby Chinese island, which would have protected the enclave's distinctive Portuguese, partly-rural, atmosphere from the risk of being changed by the rapid development and population growth of a successful airport.

But the site has now been fixed in Macao and the airport, with a 3km long single runway, will be built partly on piles and partly on reclaimed land. Design and construction contracts are now being placed for the estimated patacas 4bn project.

The Macao International Airport Company has been set up to run the project. It is one-third owned each by the Macao Government, a consortium of companies from China called Cheong Lun which includes the Bank of China, and STDM which is run by Mr Stanley Ho. It is intended that these stakes should come down later to 25 per cent, with operators at the airport, plus some airlines, taking the rest.

Some 3m passengers a year are planned in the first phase, rising maybe to 6m after 1997. Negotiations on air traffic rights are to start later this year and the Government hopes to attract Cathay Pacific and Dragonair from Hong Kong, plus airlines from other countries such as Taiwan, South Korea, Japan and Australia as well as China.

John Elliott

Woman worker in one of Macao's many toy factories

**Michael Marray** on the toy manufacturing sector

# Labour issues prevail

THE TOY industry is the second largest in Macao, accounting for patacas 1.22bn of the total patacas 12bn worth of exports in 1988. Many companies are currently experiencing problems as a result of the labour shortage, and have had to apply to the Government for a quota of imported workers from China.

The Universal Matchbox group has two factories in the enclave, one making plastic toys and the other producing the famous die-cast matchbox toy cars, which are exported worldwide. Around one quarter of the 1,200 workers at the die-cast factory have been brought in from China.

Although automation has been introduced at several stages of the production process, production remains a largely manual exercise, with hundreds of mostly young female workers on the production lines. They earn around patacas 78 for an 11 hour working day – the long hours needed to keep pace with Universal's full order books.

"We are having problems finding workers," said Mr David Yeh, chairman and founder of Universal. He launched the company in Hong Kong during the 1960s, expanded through the acquisition of the British Matchbox company in 1982, and was listed on the New York Stock Exchange in 1986.

"We have a large percentage of imported labour," Mr Yeh said," without which we are dead. "Labour shortages and rising wages in Universal's home base in Hong Kong have already driven most of the colony's toy manufacturers across the border into China, and Mr Yeh regards the next few years as critical ones for the Macao toy industry.

Though wage rates in Macao are only about half of those in Hong Kong, they are still half as great as those across the border in China – a tempting prospect for companies trying to hold down rising production costs. However, China has its own problems, such as power shortages which can halt production for half a day at a time. Ironically there is also a shortage of trained workers because of a high rate of labour turnover.

These factors give Macao a competitive edge over China in spite of its higher labour costs, but it is an advantage which could slip away in the coming years.

Sociedade dé Turismo e Diversoes dé Macao

# All pervading presence currently under threat

SINCE emerging with the winning bid when the Macao Government put the franchise for the enclave's gambling monopoly out to tender in 1961, Sociedade de Turismo e Diversoes de Macao (STDM) has risen to a central position in the local economy, and made its managing director, Mr Stanley Ho, one of the best known businessmen in the region.

Mr Ho, who himself says he "never gambles", preferring a quiet game of bridge, founded the company with partners including Hong Kong construction and property tycoon Mr Henry Fok, and Macao motor racing enthusiast Mr Teddy Yip. He has since steered STDM through several renewals of the franchise, the most recent of which runs until 2001, two years after China takes over the administration of Macao.

Along the way Mr Ho has amassed a fortune, in addition to collecting a few enemies, most notably entrepreneur Mr Yip Hon, another of the original partners who later sold his shareholding and established the Macao Trotting Club. Mr Hon remains a bitter foe to this day.

From the outset the franchise involved more than gambling, as the successful bidder was given the task of building modern hotels and generally improving the tourist infrastructure. The excellent communications which exist today between Hong Kong and Macao, with a fleet of Boeing-built hydrofoils making the 40 mile trip across the mouth of the Pearl River estuary in less than an hour, are a direct result of the need for STDM to attract customers to its casinos.

STDM, and associate companies such as Hong Kong-listed Shun Tak enterprises, are also involved in travel tour services, dog racing and lotteries. Even the vital task of dredging the harbour to keep the ferry services running is carried out by STDM.

Mr Ho left Hong Kong for Macao when the Japanese invaded the colony during the Second World War, and he quickly built up substantial business interests. Today he and STDM control six casinos, have interests in five hotels including the Lisboa, Mandarin Oriental and Hyatt, real estate developments, a direct ferry link with Taiwan, and through Shun Tak a near monopoly of ferry services to Hong Kong.

Despite talk of a flotation back in 1986 STDM remains a private company, and does not publish profit figures. However, the patacas 945m collected by the government in gambling taxes for 1988 puts its

Stanley Ho

gross revenue from the core casino operations in the region of patacas 3bn last year. The all pervading presence of STDM in Macao is currently being challenged, as large amounts of money pour into the enclave from Taiwan, China and Hong Kong itself. Some see a direct challenge to STDM from the new Taiwan-backed Macao Jockey Club, soon to start flat racing to replace the old harness racing run by the Macao Trotting Club. Mr Ho says that he welcomes the competition. "It is good for us all round," he said.

An increasing numbers of visitors are being attracted, most travelling on STDM ferries and many staying in STDM-owned hotels. Nor does Mr Ho see the horse racing as being in competition with the casino business. "Quite the contrary," he says. "After the races people will go to my casinos."

But Mr Ho is less relaxed about the recent appearance of two floating casinos offering tours from Hong Kong, where casinos are illegal, with gambling in international waters. "It has got to be sorted out. I want them out and the sooner the better," he said.

Mr Ho has been lobbying hard for the Macao and Hong Kong authorities to co-operate in stamping out the threat to the STDM monopoly, and at one stage even threatened to freeze further investment in Macao until the floating casinos were halted. This provoked a gentle rebuff from Governor Carlos Melancia in a speech before placing the traditional first bet of the lunar new year on the roulette wheel back in February.

The signs are, however, that Mr Ho, who plans to retire in three years, when he turns 70, and STDM are still showing little hesitation in committing large amounts of investment to the enclave. Projects include large real estate and hotel developments, such as the Nova Taipa City joint venture with Mr Gordon Wu's Hong Kong-listed Hopewell Holdings.

There are also plans for helicopter services linking Hong Kong and Macao, which have been delayed for some years by the Hong Kong authorities but which Mr Ho and the Macao Government hope will finally get the green light later this year. STDM is also a major participant in the airport and container port projects, and has a 16 per cent stake in the local television network, Teledifusao de Macao.

These commitments indicate a long-term view of investment in Macao, despite the change of administration in 1999. Mr Ho expresses confidence about the transfer of administration to Peking, especially given China's assurances in the Joint Declaration that Macao's current system would continue for at least 50 years.

"They know Macao has to rely heavily on gambling," he said. "Many governors have tried to rely less on gambling – without success."

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**Michael Marray** on the enclave's attractions for tourists

# A mixed cultural bag

THE VAST majority of the 5.4m tourists arriving in Macao last year were Hong Kong residents, making a quick sortee to the casinos, nightclubs and sauna and massage establishments on offer in the territory.

At the same time, genuine tourists have also been arriving in increasing numbers, a trend actively encouraged by the local authorities.

Mr Sales Marques, chief of the government's tourist activities department, sees his task as promoting Macao's culture and history as a selling point to the rest of the world. He forecasts strong growth in the number of visitors to the enclave in the coming years, with the extra arrivals coming for leisure rather than gambling.

The tourist department is promoting the enclave's mixture of Portuguese and Chinese cultures. These include the Guia Fortress and Lighthouse, the oldest on the Chinese coast, and the ruined facade of St Paul's church built by the Jesuits in the early seventeenth century.

Other popular sights are the ancient Portas do Cerco barrier gate, marking the single official crossing point between Macao and China, and the many Chinese temples such as the one dedicated to the goddess A-Ma.

Once a year the enclave *reverberates to the deafening* roar of racing car engines competing in the Macao Grand Prix. The formula three race attracts internationally known drivers, while there are also amateur events such as a sports car event organised by the Gentlemen Racers Club. Hotels are always booked solid for the grand prix weekend.

**"One of the main objectives is to develop a stable and balanced trend of arrivals"**

On a quieter note Macao also sponsors cultural events, such as a nine-day international music festival, which this year runs in October and features the Central Philharmonic Orchestra of Peking and Portugal's New Philharmonia.

"One of the main objectives is to develop a stable and balanced trend of arrivals," Mr Marques said. However, he acknowledges that until Macao's airport opens – it is scheduled for 1993 – the territory will remain for most visitors a side-trip added on to their stay in Hong Kong.

"The airport will put Macao on the global tourist map," he predicts, ending the dependence upon Hong Kong as "a door to the world".

For the moment, however, Macao is benefitting from Hong Kong's fast growing tourist inflow; more than 1m Japanese and a similar number of Taiwanese citizens flew into the British colony during 1988. Macao has been particularly successful in attracting Japanese visitors, more than 300,000 of whom arrived last year, in addition to 84,000 Taiwanese tourists.

Most Taiwan visitors were taking advantage of the simple entry procedures into China from Macao, and were using the enclave purely as a transit point. However, many also took the opportunity to take in sights such as the Macao house where Dr Sun Yat Sen, the founder of the Chinese Republic, lived and ran his medical practice early this century.

Macao's rising tourist figures, which registered a 10 per cent increase in 1988, have led to a spate of construction projects, with hotels springing up on the Macao peninsula itself, as well as on the islands of Taipa and Coloane.

At the end of 1988 there were 3,400 hotel rooms available, but by the end of next year this will have risen to around 5,000. Most of the new hotels are two and three-star, catering to Taiwanese guests and visiting business people from the mainland. There are also more five-star rooms coming onstream to complement existing top hotels such as the Mandarin Oriental, Hyatt and the Pousada de Sao Tiago.

Mr Louis Sou, acting president of the Macao Hotels Association (MHA), believes the primary aim is to try and increase the average length of stay from a current level of only 1.42 nights, and to stabilise room rates, which vary from around patacas 350 in a three star hotel to patacas 1,000 for five-star accommodation, while maintaining the currently high occupancy levels.

Average occupancy for four and five-star establishments was 82.6 per cent in 1988, while for three-star hotels it was 86.1 per cent. The attraction, apart from gambling, is the special Macao atmosphere, with its narrow streets lined with Portuguese style pink and yellow brick buildings, far removed from the money-making hustle and bustle of nearby Hong Kong.

GAMBLING

# Haven for punters

VISITORS arriving in the gambling haven of Macao will immediately find a host of ways in which they and their money can be parted. They will be able to gamble on everything from dogs and horses to roulette wheels and fruit machines. Even the ancient game of pelota, originating in the Spanish Basque region and played by men with wicker racquets hurling a ball against the sides of a three walled court, can be wagered on in its local version known as *jai-alai*.

The streets near the casinos are lined with pawnbrokers' shops, filled with the watches, Walkman stereos and other

**The streets near the casinos are lined with pawnbrokers' shops, filled with the saleable possessions of those whose luck ran out at the gambling tables**

saleable possessions of those whose luck ran out at the gambling tables. But of course there are winners too, and it is the chance of a winning streak which attracts thousands of gamblers from Hong Kong each day, hoping for a million dollar fruit machine jackpot or a big win at the card table.

From September there will be the added attraction of flat racing, with Taiwanese investors pouring several billion patacas into the new Macao Jockey Club. The new club promises to attract a great deal more interest than the old harness racing or trotting which has failed to excite the betting public.

Macao's casinos offer everything from luxury VIP rooms to round the clock gambling on the floor of the biggest casino at the Lisboa hotel. A wide variety of western and traditional Chinese games are played side–by–side, and gamblers used to Las Vegas or Monte Carlo will feel at home with roulette, boule, blackjack and baccarat.

However, they will doubtless need to study the rules of the dice game known as *dai–siu* (big and small), and *fan tan*, an ancient game whereby a cup of porcelain buttons is tipped out onto a table and the buttons counted off in fours. The excitement mounts as the final group is left – bets having been placed on whether it will consist of one, two, three or four buttons.

Upstairs at the Lisboa, or over at the Mandarin Oriental, the high-rollers, many of whom have come in from Indonesia, Malaysia and Thailand, as well as Hong Kong itself, are in action. According to Mr Stanley Ho, managing director of casino operators STDM, it is these big customers who contribute most to the casino revenues. Their favoured game is baccarat. "In one night one man can very easily lose $1m," Mr Ho said. "And they still *come back*," he adds. It is this urge to recoup losses which undoubtedly keeps casinos throughout the world in business.

Mingling with the customers at the tables and in the casinos' administrative operations are officials from the government's gambling inspection *department, headed* by Mr Alexandre Figueiredo.

His staff monitor the bets placed and the pay-outs in order to calculate the government's share of revenues, which last year amounted to patacas 941m. This revenue could be dramatically increased should the new flat racing turn out to be a success. The mostly Taiwanese backers, led by Mr Tseng Hsiao Tsum, with a 51.4 per cent stake are investing a total of HK$2bn in twin turf, all weather tracks, a bigger grandstand, a computerised telephone betting system and club houses around the region where the races will eventually be televised.

The move has caused concern in nearby Hong Kong, which sees it as a threat to its own revenues, and talks have been held between the two jockey clubs in order to minimise head on competition. The new operators forecast total bets placed for the first season to be 30 per cent of those for the Royal Hong Kong Jockey Club, or around HK$8.5bn.

With around 80 per cent of bets distributed in winnings, this should leave 9 per cent for the Macao Jockey Club shareholders and the remaining 11 per cent payable in taxes.

"I hope they are right," says Mr Figueiredo, whose team of inspectors can *look forward to* a busy time counting the cash if the forecasts prove correct.

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TELEVISION

# Slowly improving picture

FOR MANY years Macao's government-owned television station Teledifusao de Macao (TdM) was a sleepy network, overshadowed by the Hong Kong TV channels which are received in the enclave and are more popular with its 450,000 inhabitants.

However, TdM is now hoping for a brighter future. Despite a corruption scandal last year which led to arrests at the station and several resignations from within the government, a planned restructuring went ahead in January, leaving the Macao Government with a majority shareholding, but placing the running of the station into the hands of a group of private investors.

Their interest had been aroused by prospects of serving much larger markets than Macao itself, and they plan to boost transmission power into Hong Kong and neighbouring areas of southern China in order to win new viewers.

Mr K K Leung, TdM's managing director, wants initially to concentrate on developing new separate Chinese and European channels, improving programme quality, building up the group's radio broadcasting activities, and establishing the station in Macao. Then TdM can proceed to try and win market share in Hong Kong and China, with the rather grand ambition of becoming what Mr Leung calls a "superstation".

Recently the Nam Kwong Group, China's main trading organisation in Macao, acquired a 9 per cent stake in TdM. This is seen as a key step towards TdM's plans to boost transmissions to China and reach an estimated potential 19m viewers. The Nam Kwong stake leaves the government with 50.5 per cent of TdM, with Mr Stanley Ho's STDM holding 16 per cent and Hong Kong-listed Asia Television 11 per cent. Mr Leung's own company, KPS–TV has another 11 per cent, while the Japanese company Chiyoda owns 2.5 per cent.

The Hong Kong authorities have expressed reservations about TdM broadcasting into the colony even though, without a booster station in Hong Kong, the signals will only reach limited areas. Of particular concern is the issue of cigarette advertising, since Hong Kong plans to ban all tobacco advertising on television by the end of next year. TdM has said it will confine its cigarette advertising to limited hours during the day, but should still pick up substantial income from cigarette companies banned from Hong Kong television.

Despite the new privately run TdM the Macao Government will continue to exercise a certain amount of control over its output. For instance, Mr Graca Ribeiro, the government official who chairs the TdM administration board, wants to see the European channel establish itself as the voice of European culture in the region.

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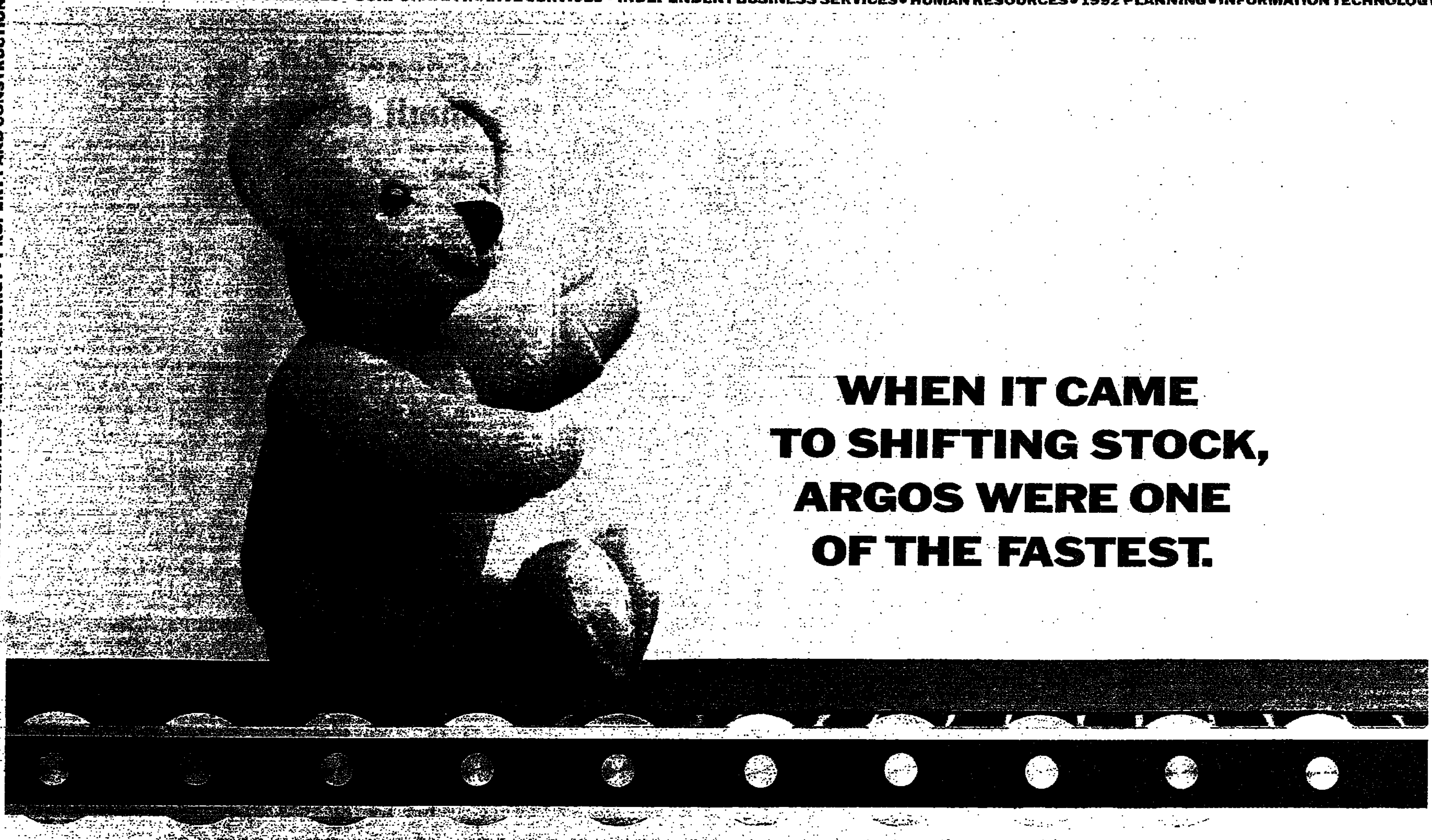



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**MANAGEMENT: The Growing Business**

One year later

# The lessons of advice and experience

**Charles Batchelor** pays another visit to a course for entrepreneurs

Carole Thomas has won some notable contracts and nearly doubled her turnover since setting up her design partnership just over a year ago. She had previously worked as a freelance designer but decided she wanted to go into business on a bigger scale.

Unfortunately for the new partnership, the cost of employing people and buying computers rose even faster than sales and showed a threefold increase on Thomas's freelance days. "I feel I have been paying to run a business for the past year," she says ruefully.

Thomas was one of a group of 16 hopeful entrepreneurs to spend several weeks (spread over six months between October 1987 and April 1988) following a Firmstart course* in small business skills at London Business School. Last month, after a year's trading, they returned to LBS to recount their experiences and learn from each other's mistakes.

Thomas appears to have run into every imaginable problem in her first year as a professional businesswoman. Her partner quit; her landlord gave early notice; learning to train staff and operate new computers took longer than expected; and an invoice for a large job went astray, delaying payment.

But these difficulties were by no means unique to Carole Thomas Design Associates. Many of the course participants experienced a range of setbacks which would have made many managers in far larger concerns want to throw in the towel.

The difficulty of dealing with people – partners, employees, suppliers and agents – was a common theme. Bill James had problems persuading the freelance designers who work for his upmarket fitted furniture company, Nelson James Furniture, to think commercially. "They prefer to work on their own terms rather than hurry to keep an appointment," says James. Yet when clients are thinking of spending £20,000 on a fitted bedroom they expect the designer to be on time.

James MacRae had similar problems motivating the agents who took on his line of greetings cards. One agent accounted for half of his sales in 1988 but many others seemed to make no attempt to push MacRae's cards. The other course participants suggest that the problem may have been that MacRae paid a higher percentage commission on the first order but a lower percentage on repeat orders.

Reaching sensible agreements with fellow shareholders and partners has also proved difficult. Janet Billinge drew up an agreement with the three other directors in her computer training consultancy, MSI Consultants, intended to give them all security. But when the marketing director proved not to be up to the job the remaining shareholders had difficulty negotiating his smooth departure. A new agreement has now been reached which obliges any director who is voted off the board to sell his or her shares to the remaining shareholders, says Billinge.

Businesspeople usually turn to professionals such as lawyers to draw up agreements of this kind – though not always with the desired results. Billinge spent four weeks looking for a solicitor to draw up an agreement under which another company provided her with training programmes on rental. The agreement was so flawed that the barrister she took on to fight the case advised her she would not win. "We had just trusted the solicitors to get it right," she says. "But we only paid them £180 of a £9,000 bill."

Even without large lawyers' bills very young businesses are usually short of cash. One result is that they do not have the funds to recruit enough good people. Billinge says that the length of time it takes to develop a new programme for a customer puts strains on cash flow and means that she finds it difficult to afford the quality of people she needs.

"The more capable and ambitious the person is the greater the chances are that they will use a small business as a springboard to better career prospects," says Carole Thomas, who lost her partner to a larger company. Even a small business needs to think in terms of "golden handcuffs" to keep key staff, she adds.

The financial problems of several of the businesses have been compounded by their founders' problems in establishing firm financial controls. Rosey Harding admits that she had great difficulty in planning the finances of her public relations consultancy, Sandy Harding Mihill. "We have more work than we can handle but we need to work out how much we should pay our staff, our fees and how many people to put on a job," she says.

Harding and her two co-founders were shocked by the discovery that on the basis of present costs they would make a small loss in the current year unless they got more work. "That was a complete revelation to us. It could just as well have been a £50,000 profit," she says. Catherine Gurling, director of enterprise programmes at LBS, recommends an accountancy refresher course.

Some of the course members have attempted to solve their financial problems by handing over their books to a local accountant. "He was a small businessman himself and he was very good – when I could get hold of him," says Carole Thomas. "The result was I totally lost control."

Nick King, whose company, Oasis Projects, installs computer switching equipment, lost all contact with his accountant when he moved to new offices and had to re-do three months' accounts.

Knowing which aspects of the business to do yourself and which can be delegated to someone else was a common problem. Sally Storey, who runs Lighting Design, was torn between spending time on designing or on selling. "I have the design skills so I feel I should let someone else do the selling," she says. She is ready to delegate tasks to others but since they never produce exactly what she wants she often has to ask them to re-do the work.

Carole Thomas: run into every imaginable problem

Ashley Ashwood

"That is a legitimate part of management," comments Gurling. "It is your right to tell someone to re-do something. That is excellent. You are setting the scene." Derek Clissold, who has a speciality chemicals business, is concerned at the time he spends at the laboratory bench. "I don't think that two years down the road I should still be in there in a white coat putting things into vials," he comments.Sales are going well for Clissold, though having created nearly 100 new products within 18 months it may be time to switch his attention to selling.

Many of the businesses which have been started are finding no problems in making sales though some have had to rethink their approach to their customers. Carole Thomas says she started out by emphasising the fact that she was able to do design work on computer.

"But then I realised desk-top publishing has very down-market connotations," she says. "People have the idea that their secretary could do it. It's a bit like a Saville Row tailor telling you he will cut the cloth using a laser. You don't go to Saville Row for the technology. Desk-top publishing is now a forbidden word. My business is design, not computer technology."

Clissold too had problems with his market image. He set up in business as Chiral Organics, a term which meant something to chemists like Clissold but little to the bio-chemists who, it turned out, were his customers. So the company changed its name to Cascade Biochem – a reference to the cascade of effects which lead to a particular disease – and found readier market acceptance.

Nana Schlaepfer, who has a translation agency, Malla Translations, finds it difficult to ring up prospective new clients out of the blue, despite having taken a telesales training course. Fortunately, a visit to the Hanover Industry Fair has produced a number of promising contacts so trade fairs may prove an alternative way of expanding the business.

Despite the setbacks, all the Firmstart participants are convinced they have made the right choice in setting up on their own. For all the problems they have encountered none of the 16 has gone bust. Generally, one in six small firms which have received advice and training fails within the first three years. One of these businesses may yet encounter a problem it cannot solve but at the moment all are talking of expansion.

*The Firmstart programme is provided by nine colleges around the country including LBS. Previously free, there is now a "commitment fee" of £200-£250, though LBS, which aims its course at slightly more established small businesses, charges £1,000. For information contact Training Agency, Moorfoot, Sheffield S1 4PQ. Tel 0742 753275.*

**Three articles tracing the progress of these entrepreneurs through their Firmstart course appeared on this page on November 17 1987 and on February 2 and April 26 1988.*

# Confidence falls in the small sector

**By Charles Batchelor**

BUSINESS optimism among smaller firms has been in sharp decline this year, according to a Confederation of British Industry study* published today. Confidence fell more markedly than at any time since October 1982.

Smaller businesses – those employing up to 200 people – expect the growth in both domestic and export demand to slow down; costs to rise; and the effect of high interest rates to start working through.

A continuation of this trend would threaten recently strong growth rates of both investments by and employment in smaller firms, the study says. Since smaller firms have become increasingly important in the UK manufacturing sector in recent years this could put in jeopardy the notion of a "soft landing" for the economy, it warns.

The four months to April saw the slowest increase in domestic orders and output for smaller firms since the end of 1986 though both are expected to pick up slightly over the coming months.

Smaller companies tend to meet increased demand by taking on more employees rather than investing in more plant and machinery. This tendency will gather pace under the impact recent interest rate rises.

In April 19 per cent of smaller firms polled cited the cost of finance as a factor likely to limit investments (for all manufacturing firms the rate was 14 per cent). This compared with just 11 per cent of smaller firms last July. Over the next 12 months smaller firms expect to increase investment at only half the rate for all firms.

Small firms appear to be more vulnerable to competitive pressures in export markets than do manufacturing firms generally. It was therefore likely that smaller firms would benefit if sterling's stability could be enhanced by allowing the pound to join the exchange rate mechanism of the European Monetary System, the study says.

**Small firms: a manufacturing success story? £2.50 for CBI members, £5 for non-members. CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU. Tel 01-379 7400.*

# Dortmund attracts outside funds

AN INNOVATIVE DM 10m (£3m) regional venture capital fund has been set up in Dortmund, West Germany. The Dortmund Regional Fund plans to invest about half of its money in local start-up companies and the remainder in companies from outside the area which promise to invest locally.

The idea for the fund came from the city council and the local chamber of commerce and trade while funds have been provided by six local companies. Investments will be managed by Baring Brothers Hambrecht & Quist (BBHQ), a venture capital group which operates internationally.

BBHQ has already received approaches from 120 companies seeking funds and invested or committed a total of DM 5.5m in six companies.

The fund plans to invest in areas such as production automation, information technology, electronics, sensors and environmental technology. It forms part of Dortmund's attempts to revitalise its economy following the loss of many jobs in the coal mining and steel manufacturing fields.

The decision to invest half the funds outside the region has been taken both to attract outside businesses and to spread the risk for investors.

The six local investors in the fund are HOESCH, a steel manufacturer; Continentale, an insurance group; VEW, an electricity utility; Signal Versicherung, another insurer; Stadtsparkasse Dortmund, a local savings bank; and Freundlieb Bauunternehmung, a building concern. These companies have been chosen to give a mix of finance and industry and large and small companies.

Venture capital has been slower to develop in Germany than in many European countries because of the strong position of the large banks in providing finance and the conservatism of many business-people.

**CB**

## In brief...

■ Accountants often apply a "sterile, public company tax and audit approach" when dealing with private companies, claims BDO Binder Hamlyn, Britain's tenth largest accountancy firm in terms of fee income.

Binder has launched a new service, Profit Plus, which it says is tailored to the needs of the private company. It involves the company and the accountant completing a specially formatted file setting objectives for the year in fields such as planning, finance and tax. The aim is to allow the company and its adviser to plan ahead instead of just responding to problems as they arise, says Arthur Wappat, head of private business services.

■ The banks, which have often been criticised for failing to meet the needs of the smaller firm, have recently made several improvements to their service.

Lloyds has begun giving a breakdown of bank charges on the statements of its business customers. The calculation and the basis for charges will be shown.

Girobank has relaunched its Fixed Tariff Account intended for businesses with turnover of up to £250,000. Customers are charged an account management fee of £1 a month and 50p for each debit or credit transaction.

National Westminster meanwhile has launched a Business Start-Up Loan to help small businesses through their first year. The loan is available in amounts up to £15,000 at a rate of interest fixed for the life of the loan.

■ Eight entrepreneurs under 30 who have been trading for up to two years are being sought to represent Britain at Young Business '89, the Fourth International Congress of Young Entrepreneurs, which will take place in Aarhus, Denmark, from September 1 to 3.

The congress will include workshops on subjects such as marketing and promotion, finance and negotiating skills. Participants will also have the opportunity to establish trade links with other young entrepreneurs from the European Community and Scandinavia.

*Application forms from Into Business Ltd (YB 89), Brunswick Enterprise Centre, Brunswick Business Park, Liverpool L3 4BD.*

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FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

# ARTS

## Mlada

**BARBICAN HALL & RADIO 3**

Michael Tilson Thomas and the London Symphony Orchestra and Chorus gave on Sunday a gripping, finely prepared, and wonderfully well executed concert performance of Rimsky-Korsakov's opera *Mlada* — the central point of their current "Flight of the Firebird" concert series (sponsored by the Howard Gilman Foundation). It was the work's British première; while the occasion cannot be said to have set one clamouring for its immediate full staging at one of the British opera houses, this was certainly the most convincing, indeed compelling, act of belief in this composer's peculiar gifts and qualities that we have had here in recent times.

*Mlada* (1892), a "magic opera-ballet" in four acts, comes after *Christmas Eve* on the Rimsky opera worklist, and has a curious history. It had started life, two decades earlier, as a collaboration by members of the "Mighty Handful" group of composers, plus the dance composer Minkus, on a multi-medium spectacular which eventually came to nothing (other composers' *Mlada* remnants will be featured in the final LSO concert of the series, on May 18).

After a long interval Rimsky returned to the project alone, expanding the originally libretto; the completed work met with little success when first performed, and outside Russia counts among the least-known of the Rimsky operas (though Tilson Thomas's enthusiasm for it has already led to earlier revivals in the US).

There are many things to be said against *Mlada* as an opera. Its composer said some of them himself; he found it "cold — like ice" and worried over the undramatic libretto, a stirring together of elements of *Armide*, *Lohengrin*, and Russian folk legend. The characters — the murdered titular heroine (played, like Fenella in Auber's *Muette de Portici*, by a ballerina), noble prince, evil princess and her co-conspirator father, accompanying clutch of priests, sorceresses, and folk figures — are purest cardboard, addressed in voice parts well-made but mechanically patterned.

There is no "motivation." What there is, particularly in Act 3, which provides one of the longest stretches of Rimsky's compositional mastery in existence, is a majestic tapestry of orchestral and choral colours inspired by nature (night, dawn, sunlight, exotic locations). Here, Wagner's *Ring* (heard by the composer for the first time not long before he began composing), Berlioz's *Faust* and Rimsky's own rich store of elaborate harmonic devices create a vision of tableau-opera unfamiliar in western opera. The solemnly radiant, ecstatic effect seems to belong to a quite unique world of theatre — and indeed, Act 3 of *Mlada* (which evidently had enormous influence on the Ravel of *Daphnis* and Stravinsky of *Firebird*) seemed on this showing almost to sum up, stand as motto for, the whole St Petersburg theatrical tradition.

For this alone the performance would have been greatly valuable; but Tilson Thomas's superbly authoritative conducting, and the inspired playing and singing of his LSO forces, "made a case" for much else as well — the diablerie, the mixture of folk humour and folk tune in the second act. He and the producer Julian Hope had conceived an intelligent "semi-staging" with lights, projections, smoke and a focal double-apertured set at the back of the orchestral platform; the handling of the dancing ghost-Mlada was inadequate, and unintended comic touches intruded elsewhere, but on the whole it suggested the opera's themes, at least, if not (of course) its spectacle.

The casting was perhaps less successful. Only the splendid Leningrad baritone Sergey Leiferkus (High Priest) attained the proper grandeur of style; the soprano Makvala Kasrashvili (the wicked princess) and the tenor Jon Fredric West (the prince) were valiant but not always beautiful of voice, and the huge bass of Edward White needs much more refining. In smaller roles Felicity Palmer and Alfreda Hodgson did sterling work, as did a whole troupe of (unfairly) unnamed choristers as the merchants and vendors of Act 2.

**Max Loppert**

## The Belle of the Belfast City

**LYRIC PLAYERS THEATRE, BELFAST**

To the visitor from London Belfast is pre-eminently a city of clean streets and courteous people. A brilliantly sunny early evening sees the rush-hour over in a few minutes, and the wide, empty thoroughfares reveal a Victorian spaciousness that recalls Manchester's proud solidity.

From round the corner comes an armoured car. Two grim-faced soldiers, their rifles poised, survey the few strollers with x-ray intensity as the car passes slowly by. Under the bright blue sky the effect is grotesque, surreal; as if two wildly differing films had been superimposed by a mischievous director. For this ignorant mainlander the paradox of "dangerous" Belfast is ironically underlined on his return to London by being robbed at knife-point a few yards from his front door. I know which city strikes me as the more civilised.

The impression is borne out by Christina Reid's warm-hearted new play. The author of *Tea in a China Cup* is at her best when depicting the closeness — both affectionate and chafing — of family, and by extension community, life. There are two belles in question: irrepressible old Dolly, ex-music hall singer, and her grand-daughter from London, the half-black child of Dolly's more educated and liberal daughter Rose.

Rose got away; elder sister Vi stayed to run the little newsagent-confectioners, stoutly Prod and British, paying protection money to Loyalist groups and accepting the police view that she is thus "doing her bit to keep the peace." The family is completed by cousins Jack and Janet, children of a Scots Presbyterian background but brought up by Dolly. Jack is now a ruthless Protestant bigot linked with the National Front and ultra-Right organisations in England. The bullied Janet is consumed with guilt at her affair with a married Englishman; her own marriage to a Catholic officer of the RUC is celibate. "I'm the sister of a devil and the wife of a saint," she wails.

This hint at the dilemma of the Irish soul is one of many sharp observations. "There are no women in Ireland; only mothers, sisters and wives," for both devils and saints are afraid of women. Ms Reid does her own sex proud; the female roles are fully rounded, the relationships, both scratchy and loving, are complex; and the background is painted with a confident theatrical flexibility in Tim Luscombe's production that has the two older generations of women running to a dressing-up trunk to dance, sing and re-enact the past in flashback.

Only with more dramatic components of the plot does the writing seem contrived: the smooth English NF representative with the titled barrister wife who is setting up power-bases in Belfast, for instance, or the climactic demonstration against the Anglo-Irish agreement with the racist element that poses a threat to black grand-daughter Belle.

But this is Ms Reid's broadest canvas yet and full of richness and subtlety in its view of the paradoxical Province: the common ground shared by extremist Protestant right-wingers and reactionary Catholics over divorce, abortion and sexual morality; the reproachfulness of a population, unflinchingly British through the best and the worst of times, now seeing itself discarded; and the conclusion, as put to me by a member of the theatre staff, that neither "Irish" nor "British" is any more an accurate label. "Northern Irishness" is a raw and tender concept; perhaps if left alone it may grow to articulate the unmistakable identity of the north.

Meanwhile, for much of its length this a loving play, the interpolated songs reflecting an inextinguishable jauntiness of spirit. The cast is uniformly good, though the author is happier with the middle generation than with the very old or very young. Sheila McGibbon's Dolly cackles and sings, perhaps a decoration rather than a necessity to the plot — the presumed embodiment of basic wisdom less apparent than the function of clown. Lindy Whiteford's Janet conveys both cowed dowdiness and the finally glimpsed sexual fulfilment of late adultery; Stella McCusker's Vi convinces as the decent supporter of a not so decent status quo; Richard Howard excels in a variety of roles, notably the simpleton whose account in deaf and dumb language of his degradation by the RUC is harrowing.

**Martin Hoyle**

### Komische Oper to visit Covent Garden

The Komische Oper from East Berlin is to visit Britain for the first time this summer to give a two-week season at Covent Garden from July 31 to August 12.

The season opens with Offenbach's *Bluebeard* and the other The two productions will be *The Bartered Bride* by Smetana and Gluck's *Orpheus and Eurydice*.

Artist's models in the Studio, 1916, by Ilya Ivanovich Mashkov

## Dip into the Soviets

**William Packer reviews '100 years of Russian Art' at the Barbican Art Gallery**

Through the commendable enterprise of those private dealers and institutions — notably the Thumb Gallery, Roy Miles and the ICA — prepared to take advantage of the opportunities the present dispensation now affords, every second show lately has seemed to be of modern Russian art. Overt modernism may have been suppressed under Uncle Joe, but art itself has continued, variously sustained by the academic tradition, a remembered European vitality and the half knowledge of what was going on in the world outside.

This is indeed the time to bring Russian artists back into the swim of the European tradition, to which by right they belong in terms both of art history and current activity. What better then a thorough survey by which to begin.

*100 Years of Russian Art* at the Barbican Art Gallery (until July 9) promises just that, with the thought of a show drawn solely from private collections only adding to the general expectation of revelation and surprise. But in the event, sadly, the promise is all. David Elliott, of the Museum of Modern Art in Oxford, who made the selection, has personal knowledge of the practical context of modern Russian art from long before the elevation of Mr Gorbachev and the onset of glasnost. He knows that such a show as this would have been impossible even two years ago, and admits to considerable surprise at how much work is still in private hands in Russia. He also accepts that the concentration upon private collections is itself a limitation. As he puts it in the foreword to the catalogue: "For many different reasons, not every artistic tendency is represented, but the essential narrative is revealed."

The tacit disclaimer is the more revealing, the claim itself but a gesture; and between the two falls the fundamental criticism of this exhibition. It is always a mistake, and one which such distinguished and experienced curators as Elliot and John Hoole, his Barbican colleague, should be the first avoid, to persist in claiming more for an exhibition than the work or event can sustain.

The silly thing is that even this show, trimmed and sensibly presented, would be perfectly acceptable. As it is, it offers no true overview, falling away markedly from the 1930s on and offering a view of postwar work up to the present that is, to put it kindly, perfunctory. But in its earlier sections, most especially in the circuit of galleries on the upper tier, where the chronology begins, it commands real interest by the context it sets for Russian art before and through the Revolution, and throughout the show there are particular works of true merit, interest and accomplishment.

There is, admittedly, barely more than a hint to be had of the truly revolutionary art of the second decade of the century, when Kandinsky first evolved an abstract expressionism, Malevich with his suprematism took abstraction to the ultimate simplicity of the square, the circle and the cross, and the constructivism of such artists as Tatlin and Lissitsky gave a lead to Europe in bringing art and design together as a social force, so much so as to make their political leaders lose their nerve. Indeed, of these major figures only Tatlin and Malevich are represented here, and Tatlin at that by two tiny and exquisite studies of a figure and flowers, from the 1930s. The only major non-figurative canvas of the period is Popova's "Pictorial Architectonics" of 1916.

As for Malevich, and such other artists of the Russian avant-garde as Larionov, Rodchenko, Puni, Stepanova, Falk, Altman, Mayakovsky, Chagall and Jawlensky, they are represented rather by early and transitional works that reflect the currency of modernism — fauvism, cubism and expressionism. In Malevich's case there are even two later portraits, poignant academic studies of his family, dating from the early 1930s, shortly before his death. Chagall here is unexceptional, though the small painting of 1914, of a street in Vitebsk, is curious and atypically direct, but Jawlensky is very fine, though modestly presented, the small landscape at Murnau of 1907 a jewel of expressionism, all golden trees and rooftops.

For the rest there are, at intervals, the paintings that are simply very good, no matter whether the artist is unfamiliar or not, or the work itself orthodox or advanced: an Italian landscape by Benois (1911) here; a tiny Pink House by Matiushin there; a wonderfully entertaining decorative panel of a Bacchanal by Exter (1916); a highly realised still-life of a lay-figure by Yakovlev (1916); a large, full-length portrait of a woman sitting in a check dress by Khodasevich (1916). There is indeed much to discover that is not disappointing at all.

*

Finally brief mention of three London shows that deserve fuller notice: Prunella Clough (at Annely Juda, 11 Tottenham Mews W1, until May 20) is a senior artist who has long enjoyed the unqualified respect of her peers, who is yet not widely known. She is the most delicate and refined of abstract painters, abstracting her images upon the odd visual incidents that life affords — a sweet wrapper, or a coil of wire, a target or a toy.

Anthony Green (Mayor Rowan Gallery, 31a Bruton Place W1, until May 17) continues his public and unrepentant celebration both of the married state and of an exuberant facility as a painter. The perspectives he conjures out of his physically eccentric canvases are astonishing. Beside them he shows, for once, some of the full-scale cartoons.

Norman Stevens (Redfern Gallery, 20 Cork Street W1, until June 1) died last summer after a short illness. He was one of the gifted generation from the Royal College in the early 1960s and, after a period too long in the shadows was just being acknowledged again at his true worth. He was a landscape painter with a great love of gardens, and an artist's bursary at Kew has lately been set up in his memory. The exhibition shows the full range and quality of his work as both painter and print-maker.

## Monteverdi's Vespers

**BROMPTON ORATORY**

The Monteverdi Choir is currently celebrating its silver jubilee with the work that marked its debut 25 years ago in the chapel of King's College, Cambridge.

Performances of Monteverdi's Vespers of 1610 are more common now than they were when John Eliot Gardiner first conducted the work, and a great deal of muddy water has flowed under their musicological bridge new version remains close to the one that he first recorded with his choir in the early 1970s, and in a programme note for Friday's performance in Brompton Oratory with the Choir and the English Baroque Soloists he offered a lively and convincing defence of his stance. The very title used indicates one aspect of his thinking, for a persuasive article by Graham Dixon has argued that the Vespers came about not to celebrate a Marian feast at all, but as the Vespers of Saint Barbara, and his resulting edition was the basis of the most recent recording to appear, sung realised The Sixteen.

Other researchers have produced yet more elaborate reconstructions, re-ordering the pieces, and interpolating extra material (not always even by Monteverdi) where needed to make a perfect fit with the liturgy.

Finding a convincing liturgical context for the Vespers has become a widespread academic obsession — those like Gardiner who are happy to take what Monteverdi published in 1610 and make a performing edition without worrying about how it could all have been incorporated in an order of service, are condemned as clinging to an outmoded, romantic concept of what Monteverdi's masterpiece ought to be. But the Vespers of the Blessed Virgin it remained for this performance, and magnificent it all was.

Next month the same forces will record the work for Archiv in St Mark's, Venice, and the space and galleries of Brompton Oratory, most imaginatively used, provided a more than acceptable surrogate for that matchless setting. Sometimes instrumental detail was obscured by resonance — the canzona that underpins the spine-tingling opening Versicle and Response disappeared in a haze of choral sound, and the unfolding of the *Sonata sopra Sancta Maria*, with the London Junior Oratory Choir positioned high above the instruments, was not always easy to follow. But invariably the voices filled the acoustic thrillingly.

The Monteverdi Choir — some 40 voices — had been perfectly proportioned to enable flexibility and choral splendour; the articulation was faultless, and the moments of maximum intensity in the *Dixit Dominus* and the *Magnificat* firmly anchored the performance. In the concertos the soloists provided perfectly styled contributions; Mark Tucker set the tone in *Nigra sum* the sopranos Ann Monoyios and Marinella Pennicchi made *Pulchra es* a celebration of ecstatic, unfettered tone, but Nigel Robson was consistently the most vivid of the group, and with Tucker and Sandro Naglia in *Duo Seraphim*, the three tenors arrayed around and above the chancel steps, provided the evening's transcendent moment.

The whole account of the Vespers, though, was sustained by Gardiner at an extremely high level; their forthcoming recording may not appeal to all scholars, but it is likely to render yet further inestimable service to the Monteverdian cause.

**Andrew Clements**

## Floridante

**CONCERT HALL, CAMBRIDGE**

The majestic figure of Senesino bestrides more than a third of Handel's operas. The Italian castrato was the dominant singer of his time in London and Handel wrote no less than 17 roles expressly for him, a difficult legacy for opera managements today who must find mezzos or counter-tenors to fill his shoes.

The castrato problem is a further disincentive for companies unwilling to explore the Handel legacy and so it is good to note perseverance being rewarded at Cambridge over the weekend. Two other Senesino operas — *Rodelinda* and *Flavio* — have already been seen there and this year the joint forces of Cambridge University Opera Society and Selwyn College Music Society tackled their third, *Floridante* of 1721.

Their production lays claim to be the first time that the original version of the opera has been presented complete since the 18th century. At first one suspected that posterity may have got its priorities right, as the opening act lacks personality beyond the expressive lyricism of its slower music. But in the second act the score bursts into life with a trio of frenzied arias, the most brilliant inevitably for Floridante himself.

If Senesino ever sang the triplets in this solo with more clarity than they had here, I would be surprised. The counter-tenor Nicholas Clapton was at his finest in this showpiece and he also gave a moving account of his prison aria "Questi ceppi" in the last act, singing the da capo in a hushed pianissimo and adding a cadenza that actually went beyond what is reputed to have been the famed castrato's compass.

By this point Handel has also given us another fine prison scene for the mezzo Elmira, warmly sung by Jenevora Williams, and the opera as a whole has acquired a dark, oppressive atmosphere that is quite its own. Among the rest of the cast Rosemary Joshua sang a pleasing Rossane and Katy Tansey, still a student at the university, offered a voice that was obviously less tutored, but had an "authentic" purity to it.

The production equally aimed at authenticity (with limited results: the concert hall allied to the Music Faculty is no Drottningholm) but the orchestra did not. It is surprising to find that Cambridge does not field period instruments for its Handel these days, or indeed tidier playing. A strong score, though, vividly projected by the conductor Andrew Jones, and a most acceptable Senesino substitute.

**Richard Fairman**

## Orlando Quartet

**WIGMORE HALL**

The Orlando Quartet are in London for three Wigmore recitals, each containing one of the Mozart "Prussian" set, one of the Beethoven Op. 59, and one of the Brahms. The group, based in Holland, three parts Central European and one part Australian in makeup, is a very fine one — a mature, well-honed ensemble, all four of whose players make a substantial, warm-hued sound. Blend and balance are always acutely disciplined, yet there is none of the high-gloss, consciously "public" delivery or concentration on corporate personality favoured by some of the more strenuous New World quartets.

Saturday's concert, second of the three, gave off, indeed, the atmosphere of genuine chamber music-making: natural, intimate, relaxed. The Mozart — the B flat, K589 — lacked an element of sensuousness: it unfolds a highly civilised and at the same time wickedly subversive game of pairs, and perhaps the performance could have taken a more delicately witty approach to the combination of parts. But this was the concert's opening work, and by the time Brahms (Op.51 no. 2, the A minor) was reached, the slight absence of fluency earlier was past. The pacing of this work was masterly, exactly ruminative and muscular, and the evenly calibrated, very "European" sound of the group timbre was a joy.

The achievement in the Beethoven, the E minor "Rasumovsky" quartet, was no less notable. By means of precisely chosen tempos (the opening a properly urgent yet unscrambled Allegro) the focus was directed forward, where it should be, right to the finale, which was played with an authentically Beethovenian combination of weight and headlong momentum. It's rare indeed to hear a performance of this work which appreciates its size without making static its sense of drama. Final Orlando recital tomorrow evening: strongly recommended.

**Max Loppert**

### Capa retrospective at the Barbican

The first major British retrospective of war photographer Robert Capa will be held in the Barbican Centre's Concourse Gallery from July 25 to September 3 as one of a series of events to commemorate the 50th anniversary of the outbreak of the World War II.

Emphasis is given to his coverage of five wars — the Spanish Civil War, the Japanese invasion of China, World War II, the Israeli struggle for Independence and the French Indo-China war. In contrast are his photographs of Parisian children, his work for Life Magazine in the late 1930s and fashionable life in Paris.



## ARTS GUIDE May 5-11

**OPERA AND BALLET**

**London**

Royal Opera, Covent Garden: The latest showing of the splendidly exotic Andrei Serban production of *Turandot* is conducted by Stephen Barlow, and the cast includes Olivia Stapp, Lando Bartolini, Yvonne Kenny and Willard White. Peter Hall's celebrated Glyndebourne production of *Albert Herring* is borrowed for a first London showing. Roger Norrington conducts, and the cast is the original one: Pauline Tinsley and John Graham-Hall in the title role.

**Paris**

Grand Palais des Champs Elysées. Bejart Ballet Lausanne, a world premiere of *1789... et nous* in the framework of La Danse en Revolution (45787515).

**Vienna**

Staatsoper. *La Fille Mal Gardée*, conducted by Casper Richter with a cast including Erika Nowak, Harald Uwe Kern and Christian Rovny. *Moses und Aron*, conducted by Horst Stein, with Noriko Sasaki, Anna Gonda, Hans Christian, Peter Jelosits. *Aida*, conducted by Garcia Navarro, with a cast including Grace Bumbry, Marjorie Vance, Goran Simic and Franco Bonisolli. *Herzog Blaubarts Burg*, conducted by Jiri Kout. Cast includes Klara Takacs. *Erwartung*, conducted by Ulf Schirmer, with Karan Armstrong. Ballet: *Dornröschen* conducted by Peter Keuschnig (51444, ext 2660).

**Milan**

Teatro Alla Scala. Katia Ricciarelli returns to the Scala to sing the title role in Verdi's *Luisa Miller* in Antonello Madau Diaz's production, after a four year absence. Also in the cast are Alexandrina Micheva, Aldo Bottoni and Paata Burchuladze. Conducted by Zoltan Pesko (80.91.26).

**Rome**

Teatro Dell'Opera. Last performance of Rossini's *Zelmira*, in an excellent production by Beni Montresor, conducted by Evelino Pido, with a fine cast led by Cecilia Gasdia, Rockwell Blake and Chris Merritt (Sat) (46.17.55).

**Naples**

Teatro Mercadante (Settimane Musicali Internazionali). Organised by violinist Salvatore Accardo, the festival opens with Paco Romero's Ballet de Espana dancing Rodrigo's *Tres Viejos Aires de Danza*, Sarasate's *Zapateado* (choreography by Antonio), and Falla's *El Amor Brujo* (choreography by Paco Romero), with the English Chamber Orchestra conducted by Edmon Colomer and soloist Carmen Linares, violinist Victor Martin and pianist Alexander Kobiens (7972412).

**Berlin**

Opera (Theater des Westens). *Così fan Tutte* in GötzFriedrich's production has a new cast led by Eva Johansson, Mariana Ciotomila, Carol Malone, Alan Titus and Gerd Feldhoff. *Der Liebestrank* returns with Jane Giering. The ballet *Giselle* closes the week.

**Hamburg**

Opera. Robert Hale repeats his much praised performance in the title role in *Der fliegende Holländer*. The cast also includes Dunja Vejzovic, Robert Schunk and Harald Stamm. *Manon Lescaut* has fine interpretations by Mara Zampieri, Hans Helm and Ermanno Mauro. Dornröschen has a wonderful John Neumeier choreography.

**Cologne**

Opera. Cologne honours the great producer Jean-Pierre Ponnelle, who died last year, by restaging the complete mozart cycle of seven operas, all produced by him. this week's performances include *Die Hochzeit des Figaro* with Margaret Price, Teresa Ringholz, Claudio Nicolai and Anrea Andonian, conducted by Sir John Pritchard. Also offered *Rigoletto* with Wassili Janulako in the title role, and *Don Pasquale*.

**Frankfurt**

Opera. The new David Pountney *Rusalka* production has a strong cast led by Clarry Bartha, Eva Randova, Manfred Schenk and Allan Glassman. *Elektra* is revived with Janet Hardy, Lisbeth Balslev, making her debut, Bobo Brinkmann and Udo Holdorf. *Rigoletto* features Michal Shamir (Gilda).

**Stuttgart**

Opera. There are three ballet evenings choreographed by Marcia Haydée, John Cranko and KennethMacmillan. *Die Soldaten*, the successful Harry Kupfer production, is again added to the programme with Nancy Shade, Milagro Vargas, Grace Hoffmann and William Cochran. Also in repertory: *Madame Butterfly*.

**Munich**

Opera. *Turandot* in Jean-Pierre Ponnelle's production willbe conducted by Guiseppe Patane. A Stravinsky ballet evening is danced to John Cranko's choreography. *La Bohème* is sung by Keiko Kamegawa, Julia Cornwell, Wolfgang Rauch and Florian Cerny.

**Bonn**

Opera. Last performance of *Madame Butterfly* with wonderful Arturo Marelli production and sets, with Yoko Watanabe and Eric Sylvester outstanding in the leading roles. A Peter Schreier lieder recital, accompanied at the piano by Karl Engel with Schubert's *Die Winterreise*. Also the lltra modern Bernhard Broka production of *Die Fledermaus*, and *Ariadne auf Naxos* with a star cast led by Edita Gruberova, Richard Owen, Peter Lindroos, William Murray, Hans Faber and Gabriele Benackova.

**New York**

New York City Ballet. The 90th New York season continues with mixed programmes including Balanchine's *Mozartiana* and *Danses Concertantes*, which Balanchine created in 1944 for the Ballet Russe de Monte Carlo and has not been seen since 1977. Ends June 25. Lincoln Center New York State Theatre (877 4700).

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# Protection money

IT IS BECOMING increasingly evident that arguments about the protection of the earth from threats to its survival will be reflected in disputation between the northern and southern halves of the globe. For the global environment will not be saved from destructive gases if the Third World declines to participate in a programme to control emissions.

This applies to carbon dioxide, which is produced by burning coal, oil, and other fossil fuels, as well as to other less common gases. Most carbon dioxide is produced by industrialised countries, but if China and India increase their growth rates by even a fraction of a percentage point, their rate of burning of fossil fuels could quickly outweigh all the savings contemplated by the wealthy countries.

In that case the "greenhouse effect", for which carbon dioxide is more than half to blame, could become much worse than allowed for by the present – admittedly uncertain – prognostications of the world scientific community.

### Strong position

The same reasoning applies to emissions of chlorofluorocarbons (CFCs), which are destroying the ozone layer. This places the developing countries in an uncharacteristically strong bargaining position. If Western Europe, Japan and North America want India, Africa and China to join programmes to reduce fossil fuel burning, protect forests, or eliminate the use of CFCs, they will have to pay up.

It might be argued that this is unreasonable, since the poorer countries are on the same threatened planet as the rich ones, but the pressures from the poor for economic development and the devil take the *hindmost are so strong* that the industrialised countries will be obliged to lend assistance. They are in the position of one who faces a supplicant who sidles up with a time-bomb in his hand.

This argument was reluctantly recognised at a conference called by Unep, the United Nations Environment Programme, in Helsinki last week, although its full force has yet to be appreciated. Some 80 nations were at Helsinki, where a target was set for the elimination of the production of CFCs by the end of the century. This goes well beyond the 50 per cent reduction by 1998 laid down in the 1987 Montreal Protocol (which 46 countries have signed) and exceeds even the 85 per cent suggested by the British Government a few months ago.

There is, however, a technical obstacle, since satisfactory substitutes for CFC as a refrigerant have yet to be developed. China and some other important non-signatories of the Montreal Protocol remain unwilling to commit themselves to a ban on CFCs unless they get a guarantee of aid to finance alternatives.

### International fund

The Unep executive's preferred solution is the establishment of an international fund to meet such costs. Britain, the US and other major aid donors argue that a system of bilateral disbursements is preferable. The Helsinki compromise is a working party to study the best way of transferring the protection money – not excluding the possibility of an international fund.

The outcome for the relatively controllable and low-cost programme to phase out CFCs will doubtless set a precedent for what may become far more ambitious programmes to reduce the global burning of fossil fuels. If scientific opinion on the likely deleterious effect hardens, the costs of moving fairly quickly to alternative fuels may become extremely high.

One suggested route is the imposition of a tax on carbon emissions, the product of which would be used to finance other forms of energy production. All countries would levy such a tax; the flow of funds from rich to poor *countries could be bilateral, or* arranged through a new UN-based fund. Alternatively, a strengthened Unep administration could manage such a programme. The British Government is reported to favour an International Convention on Climate Change, whose signatories would promise to reduce emissions of carbon dioxide. The seriousness with which such a proposal is taken will be in direct proportion to belief in the perceived threat – and to the proposers' willingness to pay up themselves.

# Bad medicine in Geneva

MIX POLITICS and medicine, and the result is almost certain to be disagreeable. So it is this week in Geneva, where the World Health Organisation – hitherto one of the least politicised and most successful of all the United Nations specialised agencies – is threatened with *serious harm because of an* extraneous political problem known as Palestine.

The difficulty stems from an attempt by the Palestine Liberation Organisation to gain full membership of the WHO. If pressed, this demand has every chance of achieving the required majority among the World Health Assembly's 166 member countries, more than 90 of which have recognised the independent Palestinian state which the PLO declared last November. But it is bitterly opposed by those, such as the US and the European Com*munity, which either do not* favour or have not recognised the notional Palestinian entity.

Without very careful diplomacy over the next few days, the result could be a row every bit as serious as the quite different controversy which tore apart the UN Educational, Scientific and Cultural Organisation a few years ago. The US, as principal paymaster for the UN system, has warned that it will immediately withhold funds not just from the WHO but from any UN body which admits "Palestine" as a state.

### Rapid reversal

The health agency stands to lose $100m this year alone for such purposes as immunisation against childhood diseases and, irony of ironies, care of Palestinians in the West Bank and Gaza Strip; other institutions such as the International Telecommunications Union, which has recently been asked by Arab states to expel Israel, may not be far behind.

The stage could thus be set for a rapid reversal of the recent hard-won improvements in the UN's fortunes. It was only last year, after all, that the US buried its grievances with the organisation and promised to settle its regrettably large financial arrears.

What makes this row particularly frustrating is its sheer futility. The Palestinians, having formally endorsed Israel's right to exist at their national council meeting last November, are understandably keen to secure recognition of their own right to self-determination in the broadest range of international forums. Mr Yassir Arafat, the PLO leader who was named President of the Palestinian state several weeks ago, needs to demonstrate progress to a movement which is restive at the political concessions he continues to make.

### Serious mistake

But he and his organisation are making a serious mistake in pursuing this campaign in the WHO. Admission as a state would have little value in a body where the PLO's cause already enjoys overwhelming support. Through its observer representation now explicitly named "Palestine", the PLO participates in a wide range of UN activities; it is hard to see what more it could do in the technical agencies if it became a full member.

Neither will promotion in these bodies change the PLO's legal status. No amount of symbolic endorsements can disguise the fact that the PLO is not, by any definition of the term, a state, having neither territory nor government.

What is much more likely is that in setting out to politicise these agencies, Mr Arafat will damage his own cause. As well as poisoning the atmosphere anew in the UN, he is stirring up hostile currents which could impair or even curtail the single biggest political gain the PLO has made – its dialogue with the US.

It may be argued that threatening to withhold funds is an over-reaction on the part of the US. But the PLO would be wise not to underestimate the strength of suspicion confronting it in Washington, or the depth of the belief there that allowing the principle of Palestinian statehood to go by default would compromise the prospects for Middle East peace negotiations.

What the Palestinians need now is genuine progress towards such a negotiation, not debating points in the UN and its affiliates.

**A.H.Hermann, who retires shortly as the Financial Times legal correspondent, looks at what he regards as lost opportunities for reform of the law**

# The ups and downs of the English legal system


Judges of distinction: Lord Denning and (right) Lord Scarman

Refugee lawyers who found a haven in the UK fall, broadly speaking, into two categories: some view English law with the greatest admiration, comparing the safety of their new home with the conditions that obliged them to leave the old. The other category is made up of those who, though no less appreciative of their good luck, identify with their new country to such a degree that they feel free, nay obliged, to contribute to a reform of its law, when that seems necessary.

When, in 1972, the Financial Times opened its pages to a wide-ranging discussion of business law, I still belonged to the first category. Sitting at the feet of Lord Denning (on the reporters bench in Court No 3), I thought his motto "The task of the judge is to do justice" expressed the best strivings, alas not always successful, of civil law systems.

This was, I thought, a more flexible, noble and down-to-earth embodiment of the humanitarian spirit of the great continental codifications undertaken around 1800. It was a great privilege, I felt, to be able to report judgments so perfectly complying with the Roman maxim that "to observe law is not to follow its twists but rather the direction of its main thrust and purpose".

At that time, I shared the then almost generally accepted view that English law was the best and the envy of the world. But when this view was restated earlier this year in an advertisement of the Bar Council, the copywriters' insensitivity to a profound change in public opinion on this point was embarrassing and painful.

What has happened during the past 17 years to change so radically the reputation of the English law? Has its quality deteriorated or have the expectations and requirements facing the legal system outgrown its capacity ? And if so, what are the underlying causes and the prospects for a better future ?

Like so many other social phenomena, law, too, has its historical ups and downs.

Lord Denning travelled on the crest of a wave which, together with the welfare state, achieved a great humanisation of English business law. He tempered the strictness of contract and property law by protecting the weaker party. This led to the upgrading of the position of women in matrimonial and similar relations, to consumer protection by disqualification of unfair contract terms, and to greater certainty in matters of wills and contracts by placing the intention of those making them above a formal and grammatical interpretation of the text.

In commercial law this period introduced a new realism. It opened the possibility to courts of preventing a defendant from spiriting his funds out of reach, and to give judgments not only in sterling, but also in other cur*rencies. An attempt was made to* reduce the number of arbitration appeals designed only to delay the payment of the award and to give arbitrators and courts a wider power for awarding interest on overdue debts.

This new realism led to the curbing of the tax avoidance industry, but at the same time there was speedy development in administrative law protecting the citizen against arbitrary decisions by bureaucrats.

This great surge, taking English law closer to the civil law systems of continental Europe, took place during the 20 years when Lord Denning presided over the Court of Appeal, which, though not the highest, is certainly the most important court of the land. It came to an abrupt end with his retirement in 1982.

Even in his last years as Master of the Rolls, the Law Lords could be relied upon to reverse Denning's decisions whenever possible. And, their return to legal formalism, preferred by the top echelons of the profession, accelerated after his retirement and that of Lord Wilberforce.

In a series of hardly believable decisions the Law Lords ruled that arbitration proceedings could not be struck off for lack of prosecution, failed to use the opportunities to put some order into the law of copyrights, and reduced significantly the protection provided to traders by the State Immunity Act 1978.

Following their lead the Court of Appeal started to hand down "with the greatest regret" judgments which made little business sense. It confirmed a judgment which punished the insured for the sins of the insurer and rejected the claims of London dealers and bankers against the member states forming the International Tin Council which became insolvent to the tune of £900m in October 1985.

This decline in judge-made substantive law in the 1980s has not been compensated for by legislation. There,

**The great surge, taking English law closer to the civil law of continental Europe, ended with Lord Denning's retirement**

detailed and obscure drafting, full of avoidable cross-references, has continued, as demonstrated by the monstrosity of the Financial Services Act 1987. Even the recent Law Commission draft of a Criminal Code,though consciously seeking to restate the law more lucidly, still suffers from the old habits.

Amid this gloom there have appeared some signs of a brighter future. Sir John Donaldson, now Lord Donaldson of Lymington, who succeeded Lord Denning as Master of the Rolls, had a record of successful modernisation of the courts over which he earlier presided. He turned his energy to improving the management of the Court of Appeal.

In contrast with the stagnation in the development of substantive law, the 1980s have seen a glimmer of hope for a reform of civil procedure. The ever-more-insistent complaints of unnecessary delays and costs, together with the increasing caseloads of the courts, produced by the expansion of business as well as by the economic betterment and increased aspirations of the people, had made such reform unavoidable.

First, following a report by the present Lord Oliver, a serious attempt was made to bring the Chancery Division forward from Dickensian times into the 20th Century. Second, Lord Donaldson rationalised the procedure of the Court of Appeal, reducing time spent on oral presentation of documents and judgments, and cutting down on the long speeches of advocates.

More recently he has shown an appreciation of a method of interpretation of law based more on principle and the legislators' intent, which is bound to shorten proceedings by the elimination of long grammatical disputations.

Finally, the Review of Civil Procedure, the need for which had been consistently advocated by the Financial Times, was initiated by Lord Hailsham. Lord Mackay, his successor as Lord Chancellor, appears now to be poised to give effect to some of its recommendations.

The shocking length of some criminal trials, particularly those of City fraud, and the overcrowding of prisons, as well as the public unease about some well publicised miscarriages of justice, have led to attempts at improving criminal procedure. Of these the institution of the Crown Prosecution Service has been the most important, but has not yet brought the desired fruits.

Leaving apart the controversial role of the jury and its selection, two major improvements would be necessary to free criminal procedure from its medieval heritage:

- The elimination of convictions on the basis of uncorroborated confessions and,
- Prohibition of leading questions to witnesses and of their deliberate intimidation and confusion under cross-examination, which, somewhat perversely, is considered a feather in the wig of a great advocate.

Throughout the period here reviewed, the greatest shortcoming of the UK legal system has been the denial of justice to people neither poor enough to qualify for legal aid, nor rich enough to be able to risk the enormous costs of litigation.

A Catch 22 situation has developed: the high costs exclude from the play that large section of the population which would press the lawyers to work more economically and to a limited budget. Those supported by legal aid, no less than those of unlimited means, are quite willing to accept the lawyers' favourite fallacy that "when it comes to justice, costs do not matter."

This absence of financial concern on the part of their clients allows the small band of barristers, protected against competition by monopoly and restrictive practices, to perpetuate the old-fashioned, time-consuming and extremely costly ways of the law. This applies both to substantive law and to procedure. And though judges are no longer financially interested in opposing reform, they all started as barristers, their names still figure at the top of the shields displayed by chambers, they preside, as benchers, at dinners of the Inns of Court. In short, they belong to the Bar and most of them are emotionally and socially wedded to its interests.

All this was evident at the time when, yielding to widespread complaints against the inefficiency of the divided profession, the Government appointed the Royal Commission chaired by Lord Benson. Unfortunately its report – which could have been written by the Bar – recommended only a number of small improvements but no fundamental change, no doubt much to the liking of the then Lord Chancellor, Lord Hailsham, who never made any secret of his family links and emotional ties with the Bar.

It was left to the present Lord Chancellor to propose a fundamental change, which would make admission to advocacy dependent on qualification, rather than on membership of the Bar. The changes proposed in his green papers open the door both to co-operation and competition, among lawyers as well as other professionals.

Still lacking in Lord Mackay's proposals is an appreciation of the need

**The greatest shortcoming is the denial of justice to those not poor enough for legal aid, nor rich enough to risk the costs**

to reform legal education so that instead of craftsmen shackled by their routines, it would produce real lawyers capable of applying principle both with regard to the system of laws and to social reality.

The Bar has been arguing that the reforms have been proposed for ideological reasons by fanatical believers in competition. That may or may not be the case. But whatever the motives behind the proposals, it is abundantly clear that reform of the profession is a precondition to a much wider reform of substantive law and legal procedure, without which the machinery of justice will continue to serve only the caucus of its operators.

In much the same way as Mr Mikhail Gorbachev cannot open the resources of his country to its citizens without first breaking the monopoly of power held by the higher ranks of the Communist Party, UK law cannot be placed at the service of the people until the monopolies and restrictive practices of the legal profession have been broken.

# OBSERVER

## Pet peeves; Tanaka didn't

■ *Maybe it is the dyspepsia brought on by a week of fine weather or perhaps it is because part of the ceiling fell down on Sunday in the middle of Mozart ( what if the 1812 overture had been on the stereo?) But it seems appropriate today to vent a few gripes.*

Let us imagine we were told in our morning newspapers that Jeremy Thorpe frolicked with Pamella Bordes or that John Kennedy was behind Watergate or that President de Gaulle accepted free diamonds from Bokassa. All nonsense, of course, but really no worse than some of the howlers which we, in our ignorance, inflict on countries of which we know too little.

Thus number one peeve on a personal list involves Japan. In the two weeks since Prime Minister Takeshita announced his intention to resign over the Recruit scandal, just about every printed organ that has crossed this desk has made the same mistake. To quote the most recent Sunday Times, in an article written by a very distinguished writer who has forgotten more about Japan than most Japanese know, "Kakuei Tanaka . . . resigned as Prime Minister in 1974 over the Lockheed scandal."

That is simply not the case. Tanaka was indeed convicted for accepting bribes from Lockheed while in office from 1972-74. But that is not why he was forced to quit. The Lockheed story did not even become public until 1976, when it all came out in hearings in Washington, and he wasn't found guilty in the first court until 1983.

Tanaka's problem in 1974 was mostly the result of a story in a Japanese magazine about his personal real estate and other financial dealings. It came on top of too naked an attempt in that summer to "buy" the upper house elections. The established Japanese media had little interest in either story until Tanaka turned up for lunch at the foreign correspondents' club and was asked a lot of awkward questions. Weeks later he was gone from office. No foreign body has subsequently managed to exert such quick influence on the Japanese Government. But Lockheed didn't do it.

## Sponsors do

■ Other departments of this organ also have their grouses. The FT's sports desk is an obscure and rarified operation that often feels put upon – maintaining that its means are slender and its accomplishments unsung. Last week it felt even more put upon than usual, having received a letter from KBMD Public Relations about Britannic Assurance's (no doubt megabuck) sponsorship of the English county cricket championship.

The sports desk was sent its very own Britannic Assurance Championship logo, so that it could incorporate it with its scoreboard and/or table. It was informed that KBMD and Britannic were looking forward to its presentation and coverage of cricket. And its attention was respectfully drawn "to the official TCCB title of the county championship – Britannic Assurance Championship."

When the sports editor, who is even more obscure and rarified than his desk, was eventually tracked down, he complained that this "sponsorship thing" was beginning to weary him. "Take racing. At Newmarket last week we had the General Accident 1,000 Guineas, at Sedgefield the Darlington and Stockton Times Conditional Jockeys Selling Handicap Hurdle, and at Newton Abbot the Devon Dumplings Hockey Club Novices Hurdle, which I assume was sponsored by the aforementioned Devon Dumplings, though I am not, as it happens, sure."

"It's a shame - unilateralism is one of the shortest words I know."

Several unprintable suggestions were advanced about what might be done with the logo. After all, we don't publish scoreboards or racecards.

## Ortega wasn't

■ Curiously, Daniel Ortega wasn't complaining after 15 rounds with the Grantham bruiser yesterday, for all the obvious differences of their hearts and minds. The Nicaraguan President, indeed, found some common ground: "We were both wearing green clothes," he said, brightly. His were a rather fetching olive drab; hers, presumably, were environmentalist emerald.

## Nor was Burdett

■ Also not complaining yesterday was Charles Burdett, who happens to be Swiss and 46, and who, to make matters even more confusing, is the brains behind the emergence of a famous Spanish name in an entirely different guise.

Collectors of vintage cars might be forgiven for thinking that last week's announcement of a £9m international share placing by Grupo Hispano-Suiza was a brave attempt by the venerable producer of cars of yesteryear to make a comeback.

It turns out, however, that the only connection between the Hispano-Suiza of the 1930s and that of today is the name, and the fact that the two companies both sell products with four wheels. The modern company's name is rather more prosaic than that of its namesake, since it distributes construction equipment – imported JCB *retroexcavadores* – and office partitioning, with or without wheels, in the Spanish market.

Burdett was saying yesterday that he liked the sound of the name, because of its links with a time of "big glory" in Spain's past, and because it reflected his own background – his Swiss father sent him to university in Switzerland to cure a distressing love of cricket.

But, once Burdett acquired a shell in Spain, the owner of the original motor company would not sell the name, and Burdett freely admits to having received several "nasty letters" on the subject. But he is not worried by the dispute – the title has been registered in Spain through the correct channels after a ministry official confirmed to Burdett that there was no other *Grupo* Hispano-Suiza.

And, as a veteran of Spanish business practices after 20 years there, he knows what counts. "What a notary public has signed is gospel."

## This one might

■ *"Why is that people always take an instant dislike to me?"*
"It saves time."

Jurek Martin

# LETTERS

## Some restrictions on bid-proof predators can be justified

*From Mr Allen Sykes.*

Sir, The Financial Times's generally robust views on eliminating unjustified protectionist barriers to takeovers, as set out in numerous editorials, are wholly to be welcomed. In "Takeovers Under Fire" (May 3), however, you appear to lean further in favour of bid-proof bidders than your arguments can support.

When you describe as dubious the general and fairly widely voiced proposition that bid-proof companies should not have complete freedom to make takeovers, I suggest you go too far. You further take issue with the specific suggestion that bid-proof bidders should automatically be referred to the Monopolies and Mergers Commission (MMC). You suggest, *inter alia*, that there is no practicable definition of a bid-proof company, and you further imply that proponents of this measure are, in reality, seeking a respectable guise for indefensible protectionist arguments against mainly foreign takeovers.

This is an important as well as a topical subject. I should like briefly to set out the case for certain restrictions on the actions of bid-proof companies, be they national or foreign.

As far as I know, the argument for considering referring bid-proof bids was first put in my article "The Trouble with Bid-Proof Companies" (January 4, 1989). There I urged automatic consideration by the Office of Fair Trading (OFT), not the MMC, of bids by companies with a capitalisation in excess of, say, £1bn, where there is prima facie evidence that they are bid-proof and are either predominantly engaged in monopolistic operations (that is, not in competitive product markets) or operating inefficiently (that is, carefully qualified conditions).

The OFT would then decide whether there was sufficient prima facie evidence — despite the bid-proof character of the bidder — that the acquired company would be operated to an acceptable standard of efficiency in the long term.

Only if the OFT were not fully satisfied by the evidence did I recommend referral to the MMC. I pointed out that this would seldom involve referral of EC bids, because their lenders generally impose high standards of efficiency. The same would apply to many — perhaps to most — Swiss, Scandinavian and Japanese companies for the same reasons. (Because American companies are freely traded on stock markets, relatively few of them are bid-proof.)

In other words I proposed eventual MMC screening of only a small minority of bid-proof *companies under carefully defined conditions*.

These conditions are concerned with what I consider to be the matter of prime public interest: the efficiency with which British or British-owned assets are run — a matter your editorial does not touch upon. These arguments have nothing to do with nationalism; they would apply equally to UK companies, and therefore we should be in no danger of unfavourable restrictions being imposed upon these companies abroad.

I do accept, however, the validity of your argument that there should be initial OFT scrutiny of companies where mergers would make them bid-proof. Where this happens, the pressure for the efficient use of assets is seriously reduced, a matter of evident public interest.

I would make one other point.

Numerous commentators — including Government spokesmen — have dismissed the arguments of those with a vested interest in restrictions on takeovers. While it is right to scrutinise the arguments in *such cases, it is quite wrong* to presume that those with vested interests are automatically advancing false arguments. An innocent suspect accused of murder has a vested interest in justice, but that vested interest does not turn innocence into guilt.

Often, arguments in any sphere will be put forward mainly by those with a vested interest, but without such an interest they may never have acquired the knowledge and experience which underlies their argument.

I submit that the case for the complete freedom of bid-proof bidders has not been made.

Allen Sykes,
*31 Charles II Street,*
*St James's Square, SW1*

## Pre-emptive rights

*From Mr L.E. Linaker.*

Sir, I was disappointed to see the Treasury again raising the issue of pre-emption rights, accompanied by the usual emotive and misleading statements.

Private and institutional investors have both rights and responsibilities relating to their investments; they are clearly not entitled to privileges.

To any responsible investor the pre-emption principle is a manifest right.

The suggestion that the abolition of pre-emption rights would lessen costs and widen ownership is inaccurate and irrelevant.

L.E. Linaker,
*Chairman, M&G Investment Management,*
*Three Quays,*
*Tower Hill, EC3*

## S.87 gives SIB no choice

*From Ms Betty Powell.*

Sir, Ms Anne Mothersill (Letters, April 27) suggests that the Securities and Investments Board (SIB) is showing inflexibility over recognising schemes under section 87 of the Financial Services Act (FSA). Such a suggestion shows a complete misunderstanding of the provisions relating to such schemes.

The decision to designate a territory for the purposes of section 87 rests with the Secretary of State for Trade and Industry. The designation order for a territory specifies the classes of scheme that can obtain recognition. The authorities in the designated territories are responsible for classifying their schemes.

Betty Powell,
*SIB, 3 Royal Exchange Buildings, EC3*

## More and cleaner trains

*From Mr George Stern.*

Sir, I disagree: we do not want more investment on the London underground system.

Jurek Martin (Observer, May 4) shows why: London Regional Transport investment goes on crazed schemes such as the underground's exit gates — unknown in Europe, and sure to cause a holocaust.

The underground is rotten because trains are cancelled. This does not need investment, but more staff. It is dangerous because it is filthy. Filth needs people with mops and buckets, not technological junk.

Paris's public transport, RATP, is comparable in size to London's but incomparably better. RATP investment runs at under £300m a year — the same as London. But spending is current spending — on proper services without gaps, on keeping the system clean, and on low fares. Zones 1-3 cover a larger area than zones 1-3 in London, yet a weekly ticket costs 62FF (£5.80 — of which an employer must pay half) compared to £11.20 for London's bombed-out system.

"More investment" is a third world cop-out. It is good news for contractors and the bureaucrats who hand out the contracts, but does nothing for the people suffering now.

We want what everyone in Europe has: more (and clean) trains at a third of the price. We do not want technological junk ordered by people who cannot even operate mops and pails.

George Stern,
*6 Eton Court,*
*6 Shepherds Hill, N6*


## Hitch-hackers' guide . . .

*From Mr A. Sandman.*

Sir, For some time now it has been possible to buy, off the shelf, apparatus which when installed on a main frame computer completely protects against "hacking."

The main frame has a list of authorised users' names and telephone numbers. On receiving an inquiry it takes the caller's name and, so to speak, hangs up. It then checks against the list and, if all is well, telephones back. Only an authorised user can receive the call.

This conceptually simple, brilliant system is preferable to a Parliamentary Act which would be only too easy to ignore and difficult to enforce.

A. Sandman,
*11 Sharpleshall Street, NW1*

## Uncomfortable performance

*From Mr Harry Woolf.*

Sir, Brian Hague (Letters, May 2) drew attention to the cinema goer's lot in London's West End. He is lucky not be a theatre goer.

A visit to the Shaftesbury theatre left me wondering not if, but when our next public tragedy, with serious loss of life, will occur, such were the appallingly cramped conditions when entering and leaving this theatre.

At the interval the crush of bodies to get into any one of several unattractive bars was, for what is presumed to be the centre of the world of theatre, quite shameful. Several people around me were complaining at the gross discomfort. The chance of getting out in a hurry was quite negligible for most.

During the show a cold cross wind across the first eight rows of the side stalls froze my left leg. My complaint, with a request to see the duty manager during the interval, produced no response.

Harry Woolf,
*30 Hyde Park Gate, SW7*

## Change at work

*From Mr Peter Brighton.*

Sir, "Painful change in the workplace" (April 25) makes depressing reading.

Since 1979 there has been a dramatic improvement in industrial relations. The legal changes which brought this improvement about are fundamental. It would be comforting to think that they are also irrevocable, but those who live in the real world know that these are complex and unpredictable matters.

All involved, particularly those whose jobs might be put at risk, should be in no doubt about reasons for any industrial dispute. In the case of the engineering industry there are two key issues.

In response to the unions' claim, the employers have offered to reduce the working week by 1¼ hours over three years. The key condition is that the reduction should be self-financing, and the means by which this is to be achieved must be settled before the reduction is introduced.

The second is that, within the three-year time frame, the reduction would take effect on dates to be agreed to suit the different conditions in each individual workplace — most likely on the company's own pay settlement date. This condition reflects the established practice in our industry.

These conditions are what the potential dispute in engineering is all about.

Peter Brighton,
*Engineering Employers' Federation,*
*Broadway House,*
*Tothill Street, SW1*

## Participation in the political process

*From Mr John Gossage.*

Sir, The 90 per cent turnout reported in the first round of the Soviet elections is admirable, but there is no reason to suppose a similar outcome could be achieved in a western democracy where people feel more secure in their liberty. The French experience suggests that voter exhaustion in a run-off system is a real problem. Nor is there any guarantee that the introduction of new candidates, allowed by the Soviet system, would prevent the failure of the second poll to achieve a decisive result.

Miss Watchorn (Letters, April 12) is correct to stress the desirability of widespread participation in the political process. Turnout ratios are an important indicator of this. Proportional representation, in particular the single transferable vote system, would improve the turnout in UK elections by destroying "safe" constituencies.

Other reforms could also contribute towards increasing participation: open government, with freedom of information and opportunities to state views in person to decision makers; devolution of decision making to the lowest feasible level of government, including the implementation of the European Community Charter for local self-government and the introduction of home rule for Scotland and Wales, coupled with regional government for England; properly resourced consultation exercises with realistic time-scales for receiving responses from the public.

The market mechanism gives consumers a voice in the allocation of resources producing private goods; the political system should give the citizen a similar voice for public and hybrid goods.

John Gossage,
*46 Graemesdyke Avenue,*
*East Sheen, SW14*

## EC withholding tax proposals

*From Mr P.E. Beales.*

Sir, David Buchan's interview with Mrs Scrivener (April 17) appears to suggest that, as a matter of whim, European Community member states can renege on their commitments under last year's Capital Movements Directive to abolish exchange controls.

This is simply not the case. Articles 6 and 9 of that directive make it clear that the its adoption and implementation were not conditional upon the adoption of an EC withholding tax. For a member state, therefore, to fail to implement the directive would appear to be a clear breach of a Community obligation, ultimately leading to an action in the European Court of Justice.

Furthermore, the scope for reimposing exchange controls is subject to Article 3 of the directive, and to Articles 73 and 108-109 of the Treaty of Rome. Under these provisions a member state needs to demonstrate, broadly, that it is experiencing serious disturbances in the functioning of its capital and foreign exchange markets, or serious balance of payments difficulties before the reimposition of exchange controls can be justified. The Commission has a key role in determining whether these conditions are met.

The interview also implied that the City of London is relaxed about the Commission's withholding tax proposals. On the contrary, as far as the banks are concerned.

We consider the Commission's proposals unnecessary, ineffective and potentially damaging to the interests of financial institutions in the EC, and their customers. We are encouraged by the West German government's decision to withdraw its own withholding tax, and hope that it will now stand firm against the proposal for an EC-wide tax.

P.E. Beales,
*British Bankers' Association,*
*10 Lombard Street, EC3*

## House prices can fall

*From Mr Steven Bell.*

Sir, John Brennan suggests ("Why the crash of '89 remains a myth," April 29) that the pessimists who last year predicted a crash in the housing market were wrong. He reports research by Fleming and Nellis, commissioned by the House Builders Federation Bulletin, to support this.

The suggestion that the gloomy forecasters (of which we are perhaps the best known) are partly responsible for the slow-down in housing activity is flattering. But the suggestion that the underlying analysis is misguided is wrong.

The basic reason for suggesting that house prices have to fall is that they are too high relative to incomes. Fleming and Nellis suggest that we failed to take account of other influences; they point to the ratio of housing loans to income which suggests, they say, a very different picture. In fact, in our analysis we took account of and quantified almost all the additional factors they mention, plus others.

The housing market is already justifying our "gloom." Turnover has clearly collapsed. Each monthly figure for mortgage commitments published this year has been lower than a year ago, and the previous year. The (highly regarded) Halifax Building Society series shows that house price inflation was still positive, but at a steadily declining rate, and that house prices fell in the first three months of this year in Greater London, East Anglia and the south of England — broadly the areas we identified last year as most exposed.

Perhaps what is most surprising in all this is that, despite the evidence that the housing market is getting weaker, not stronger, so many people still have great difficulty in believing that house prices can fall as well as rise.

Steven Bell,
*Morgan Grenfell & Co,*
*20 Finsbury Circus, EC2*

*FOREIGN AFFAIRS*

# Mr Arafat lives dangerously

**The balance of political advantage is clearly in the Palestinians' favour, writes Edward Mortimer.**

Seventeen months old today, the Palestinian *intifada* shows no sign of fizzling out. On the contrary, Gaza has just experienced its bloodiest weekend of violence yet.

As usual, the casualties were overwhelmingly on the Palestinian side: three killed, 147 wounded by gunshot, nearly 200 more injured in other ways (presumably beaten, or affected by tear-gas). On the Israeli side, one jaw and one hand broken, and "several" others taken to hospital, presumably for lesser injuries.

Similar calculations have been made about the economic effect of the *intifada*. Its impact on the Israeli economy has been marginal, while the Palestinians in the occupied territories have seen their gross national product and their living standards drop by 30 to 40 per cent.

Yet the balance of political advantage is equally clearly in the Palestinians' favour. For the politics of nationalism is a primitive and brutal business. Nations are expected to earn their place in the sun by paying a price in suffering and death. The willingness of the Palestinians to sacrifice their own children, to inflict pain and misery on themselves, has won a new respect for their national movement around the world. Rightly so, for there can be no questioning the genuineness or seriousness of a movement for which people are prepared to make such sacrifices. The old Israeli argument that Palestinian national identity is an artificial construct stands exposed.

Of course all nationalisms are artificial, in the sense of being culturally conditioned rather than genetically innate. Zionism, the nationalism which produced the state of Israel itself, is perhaps more artificial than most, since it involved bringing together people who had only their religion in common, from all over the world. Palestinian nationalism, appealing to people who lived in a particular territory and spoke the same language (even though sharing that language with others), was by world standards a more normal phenomenon, though it becomes less so to the extent that the people and the territory have subsequently been separated.

But no nationalism is outside time. Nations exist in the minds of people, not in some eternal and "objective" order of things. They come into existence as and when people identify with them, and they can disappear if people come to identify with something different. Whether a Palestinian nation existed in 1948, when the state of Israel was proclaimed, is a moot point. That one exists now is hardly disputed even by Israelis. It is too bad that people have to die in Gaza to prove it, but that is how it is.

So the prolongation of the *intifada* is a victory for the Palestinian movement. It has given new confidence to the leaders of the Palestine Liberation Organisation, enabling them to make explicit offers of a compromise peace without seeming simply to capitulate before the overwhelming strength of their enemy. Mr William Waldegrave, Minister of State in the British Foreign Office, has with shrewd insight compared the *intifada* to the Egyptian crossing of the Suez Canal in 1973, which restored Arab self-respect after the humiliation of 1967, giving President Sadat the prestige and confidence to make peace.

**To win the confidence of the Israelis, President Sadat had to expose himself to Arab hatred**

The war of 1973 also gave Israel a greater sense of urgency, a sense that security could not so easily be guaranteed by the occupation of territory in the absence of peace. It undermined the logic of Moshe Dayan's statement that he would prefer "Sharm al-Shaikh without peace to peace without Sharm-al-Shaikh". Has the *intifada* similarly altered the security equation in Israeli minds about the value of the West Bank and Gaza as against peace with the Palestinian people? Unless it does that, the warm glow it brings to Palestinian hearts will not be enough to make a solution of the conflict possible.

On that crucial point, the answers coming out of Israel are as yet confusing. The latest opinion poll shows 58 per cent of Israelis now favour negotiations with the PLO, but roughly two thirds of those do not believe the PLO has yet fulfilled the necessary conditions for such a dialogue. A narrow majority favours the principle of conceding further territory in exchange for peace, but most are not yet willing to contemplate an independent Palestinian state - which, not surprisingly, is the Palestinian movement's avowed objective. There are few signs that the *intifada* has administered a shock to Israel's body politic comparable to that of the Yom Kippur war, and even fewer to suggest that Mr Yassir Arafat's peace offensive has had an impact on Israeli public opinion in any way comparable to that of President Sadat's visit to Jerusalem in 1977.

Facile optimism is certainly not in order. Nor, however, is premature pessimism. The nature of Israel's problem in the occupied territories is different from that posed by a conventional Arab-Israeli war, and the effect of the uprising is felt as a steady drip rather than a sudden shock. The fact that Mr Yitzhak Shamir has proposed holding elections in the territories, and is apparently now close to an agreement with his Labour colleagues on the modalities of such elections, is certainly evidence that it is having an impact. Only a few months ago Mr Shamir was firmly ruling out elections, and he still faces strong opposition to the plan within his own Likud bloc, but it seems that advice from the army has convinced him he can and must override that opposition. The army detests being used as a police force in the territories, sees no military solution, and insists that a political one be found soon.

Of course it is most unlikely that in proposing elections Mr Shamir believes he is setting in motion a process leading to a Palestinian state. He remains implacably opposed to that in all his public statements, as indeed he does to talks with the PLO. He claims he is still looking for an "authentic" internal leadership, distinct from the PLO, with which to negotiate an autonomous regime, followed only after three years by further talks on the "final status" of the territories, as provided in the Camp David accords. But he must know that in any remotely genuine elections candidates backed by the PLO are bound to be elected, probably unopposed. And since the PLO also knows this it is unlikely to do him the favour of calling for a boycott of the elections, though it is trying (through the Americans) to haggle about the precise conditions in which the elections should be held.

A rather comic situation prevails at present, in which Israeli leaders are seeking American support for their election plan, the United States is discussing the plan with the PLO, and the Israelis refuse to listen to any account of the US-PLO discussions for fear of admitting that they are negotiating indirectly with the PLO - although it is more and more clear that that is what they are doing in practice.

If nothing really dreadful happens in the next few months - always a necessary proviso in the Middle East - it seems a fair bet that this convoluted process will lead to a direct Israeli-Palestinian dialogue. Whether that dialogue will in due course produce an agreement is much harder to predict. To recover all of Sinai took Egypt eight and a half years after the Crossing of October 1973. In order to win the confidence of the Israelis Sadat had to expose himself to the hatred and contempt of the Arab world and the accusation that he had betrayed the ideal for which the Egyptian soldiers had given their lives. In the end it cost him his own. For Mr Arafat it is likely to take at least as long, and the risks will be even greater.

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# Churches accuse E German leadership of poll fraud

By Judy Dempsey in Vienna

EAST GERMAN church officials have accused the Communist Party leadership of rigging Sunday's local government elections and falsifying the votes cast against official candidates.

Their claim follows the arrest of 100 people on Sunday in the city of Leipzig after clashes between police and 1,000 protesters demonstrating against the conduct of the poll.

The demonstration was the second in Leipzig in less than two months. In March, several hundred people demanded exit permits to resettle in West Germany.

Although East German government officials yesterday claimed that only 1.5 per cent of the votes were cast against candidates standing alone in a constituency, independent church sources said that in some areas the negative vote was as high as 10 per cent.

Independent human rights activists said they monitored the voting in many parts of the country after the Protestant Church and other opposition groups had called for a boycott of the elections.

The election procedures are in sharp contrast to recent developments in Poland, Hungary and the Soviet Union, where voters can now choose from a list of candidates, including a number of non-Communist Party members. But in East Germany, the authorities have clung on to the single list of party candidates.

The pace of the changes taking place in other parts of Eastern Europe has also clearly given both the Protestant Churches and the younger generation greater grounds for discontent.

In recent months these groups have become far more vocal in their calls for greater political pluralism in the electoral process.

However, there are signs that unhappiness with the East German leadership's attitude is no longer confined to independent human rights and church groups.

# Kinnock leads N-policy retreat

## Michael Cassell examines an attempt to discard unilateralism

MR NEIL KINNOCK, leader of Britain's Labour Party for six years, will today seek endorsement from his colleagues for a radical shift in defence policy intended to help bring to an end Mrs Margaret Thatcher's decade-long grip on British politics.

The country's principal opposition party is on the verge of abandoning the unilateralist nuclear defence strategy which has played an important role in two of Labour's last three, successive general election defeats.

If Mr Kinnock wins the support of his ruling National Executive Committee, meeting in London today, his party's annual conference in the autumn will represent the last hurdle in a race to adopt a new defence strategy which can *win the support of British voters* in the next general election.

For Mr Kinnock, the public abandonment of the party's policy of unilateral nuclear disarmament has been one of the most difficult and critical political decisions he has had to make. *Having* given the lead, he expects his party to follow. Although there will be moves by the party's left wing to soften the retreat from unilateralism, Mr Kinnock should get his way.

A lifelong, "no compromise" believer in unilateralism, whose political opponents stand ready to accuse him of dumping what was a matter of non-negotiable morality in favour of naked political expediency, Mr Kinnock has spent a year coming out of the unilateralist closet.

The issue has cost Labour dearly at recent elections – an estimated 4 per cent of the popular vote in 1987. Without changes, the issue still threatens fatally to undermine the party's painstaking efforts at modernisation and electability. These efforts see their fruit this week in the publication of the results of the party's comprehensive two-year review of policies.

By last summer, Mr Kinnock was talking openly of the futility of "something-for-nothing unilateralism" and, after an apparent, temporary attack of faint-heartedness, he has steadily prepared the ground for the shift in stance.

Last month, he went further than ever in making clear his belief that Labour could not be elected unless the party dropped its unilateralist commitment to dismantle the country's existing Polaris sub-

Kinnock: the only way forward for Britain's Labour Party is to retreat from unilateralism

marines and cancel the Trident vessels which are set to replace them.

Mr Kinnock's views about the immorality of nuclear weapons and his wish to see their extinction remain unchanged. But both he and other senior party figures believe that improving East-West relations and the positive dialogue on strategic arms reduction offers Labour the chance to escape from its defence straitjacket, to capture the public spirit and to ride the tide of change.

The party accuses the Conservatives of maintaining old, *Cold War* tactics beneath the veneer of the new friendship between the Kremlin and Mrs Thatcher, the Prime Minister. It believes that her commitment to keep nuclear weapons, which she says cannot be disinvented, will increasingly be seen to be out of step with *international* opinion.

Critics in Mr Kinnock's own party point ironically to Labour's unswerving commitment to unilateral action in the face of successive, hard-line Soviet leaders who were far more likely to provoke international conflict than Mr Gorbachev. Only now, when the threat appears minimal, does Labour insist on negotiating away what it was previously happy to abandon.

Mr Kinnock argues that unilateral action was necessary, in *an attempt to break the arms* "log-jam". Now that there is movement, a Labour government could help achieve the superpowers' expressed objective of a nuclear weapon-free world by the year 2000 by putting its nuclear forces into the negotiating process.

*Some on the party's left will* today attempt to rescue something for the unilateralists, who could yet still give Mr Kinnock a headache at this autumn's annual conference.

Attempts by the left to impose a time limit on the negotiating away of Polaris and Trident failed while the new defence policy document was being drawn up.

There is considerable anger that no concessions have been extended to the unilateralists. Today they will try to persuade the National Executive Committee, the party's top policy body, to establish as an objective, rather than a commitment, the removal of nuclear weapons from Britain within the parliamentary term of a new Labour government.

The party's leadership regards as untenable the suggestion that, if negotiations have not been completed within that time-scale, Labour would proceed forthwith to decommission its nuclear weapons.

Such a stance, it says, would undermine its negotiating position, although the Labour leader will be accused of doing that very nicely for himself by *making it quite clear he would* never contemplate pressing the nuclear button.

Despite the overwhelming desire within the party to unite behind its new policies at a time when Labour is enjoying a long-overdue surge in popularity and is really beginning *to believe in an election victory*, there could still be some senior resignations over the issue.

Mr Ron Todd, leader of the TGWU, Labour's largest affiliate union which wields the largest block of votes at the party's conference, and a *member of the policy review group*, has already said he cannot be associated with the document. It has, however, been left to his deputy, Mr Bill Morris, to attack the strategy and to say that for the TGWU, there can be turning back.

Last year, the TGWU was instrumental in seeing leadership moves on defence defeated at conference and Mr Todd intends to ensure his union's own bi-annual delegate conference next month votes for unilateralism before the party's annual conference.

Defeat this autumn is unthinkable for the Kinnock camp. Some unions are already swinging their support behind the new line, although the position of others, until now firmly unilateralist, has yet to be decided.

The extreme left, now effectively neutered on the executive committee, is already denouncing the review and the defence document in particular as a betrayal of socialist principles. Once again, it is threatening civil war and its capacity to create a damaging impression of traditional Labour disunity may, indeed, outweigh its real strength.

Mr Kinnock and his colleagues have the summer to convince the Labour movement that it can demonstrably retain its commitment to a nuclear weapon-free world in a way which can prove to be an election winner rather than a vote loser.

Beyond that, Labour will have to prove to the electorate, in the face of a predictable Tory onslaught, that its strategy is based on genuine conviction and that it is a safe one in an uncertain world. If it succeeds, it may have removed a major obstacle on the path *back to power*.

# Thatcher attacks policies of Ortega

By Philip Stephens and Andrew Marshall in London

MRS Margaret Thatcher, the British Prime Minister, yesterday delivered a stinging personal attack on the policies being pursued by Mr Daniel Ortega, the Nicaraguan President, and indicated that Britain would continue its bar on bilateral aid.

London was the latest stage on Mr Ortega's 10-nation tour of Western Europe, which is intended to drum up financial support for Nicaragua's economy and political assistance in persuading the US to improve relations with the Marxist state.

After what was described as a "very frank" 75 minute meeting between the two leaders Mrs Thatcher's aides said four areas were listed in which she believed Nicaragua was undermining stability in the region: no progress had been made towards achieving "genuine democracy;" the country continued to rely heavily on Soviet bloc advisers; a large army was maintained; and guerrillas were still being supported in neighbouring countries.

Mr Ortega said he was "satisfied" with the meeting which had been "positive."

"This is the first time I have met the Prime Minister, and that itself is a positive act for dialogue," he said.

He stressed the efforts the country was making to assure free and fair elections next year, including the presence of *a verification team drawn from* the United Nations and the Organisation of American States.

Mr Ortega claimed that Nicaragua was not a satellite of the Soviet Union but "a satellite of Third World interests." He blamed the situation in central America on the US, and said he had told Mrs Thatcher "the very important work she could carry out as a communicator with the US."

The issue of economic aid was not raised. "I made it clear that my interests are primarily political," he said.

Mrs Thatcher's strong reaction shows that she remains firmly aligned with US policy, which is to continue funding the anti-government contras and refrain from aiding the country until next year's elections are satisfactorily completed.

## THE LEX COLUMN

# Sears shoes start to pinch

Building houses and selling shoes are bad businesses to be in at the moment, but the news from Sears is that both are in for worse times than generally expected. Last year the company only delivered the expected 11 per cent increase in profits because the incidental bits – property development, discontinued businesses and so on – masked a fall in retailing profits; this year a probable 20 *per cent drop in house building* profits, combined with even tougher times on the High Street, will make it hard to produce any increase at all.

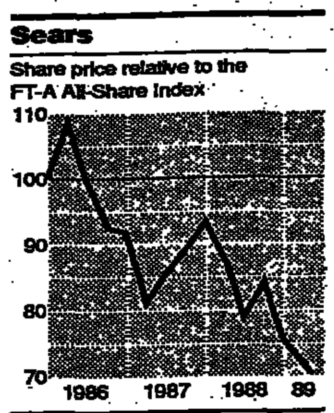
As Sears stubbornly persists in including some property profit at the operating level, it is impossible to tell whether the retailing shortfall is indifferent or positively discouraging – although the apparent need for the continued disguise makes one fear the worst. Meanwhile, the wisdom of buying Freemans is now looking questionable, with pre-tax profits of over £26m against an *interest charge of £47m* and with the great gains from linking a retailing and mail order group seemingly years away. By contrast, the sale of William Hill appears better with every rise in interest rates, and the £18m-odd gain this year will be badly needed.

The 5 per cent fall in the shares yesterday seemed to be rethinking Sears' defensive charms: while its strong balance sheet and great property portfolio suggest one thing, its activities suggest the other. Conceivably a bidder might want those assets, but so far there are precious few grounds for suspicion.

## Advertising agencies

The UK advertising agency world is a stock market conundrum. The lowly rating of Saatchi & Saatchi reflects an understandable disillusion with the mega-merger syndrome, while the keen interest of the arbs in the future of BMP results from a commonly held view that it is not big enough to survive on its own. WPP sits somewhere in the middle, and the higher it chases the Ogilvy share price, the greater the fears that it is making the same sort of mistakes which have come to haunt the Saatchis.

While these sorts of concerns make the UK institutions understandably nervous about Mr Sorrell's grand ambitions, Wall Street seems to have his measure. Ogilvy shares have jumped by over 50 per cent in




little more than a month and if WPP is going to clinch this deal, $50 a share is probably not going to be enough. WPP should still be able to finance the deal without direct recourse to shareholders, and a price of around 22 times earnings has almost certainly torpedoed the chances of a rival management buy-out or recapitalisation. Whether the latest proposal will be dilutive is of only marginal interest, given the longer-term questions over whether there will be substantial client defections.

WPP's interest in Ogilvy could not have been better timed for BMP since it underlines the cheapness of the current bid from BDDP, the French agency. However, its improved financial performance cannot disguise the weaknesses in its international strategy, which suggests that sooner or later it will get into bed with a partner, although probably not BDDP.

## English China Clays

Yesterday's figures from English China Clays left the market in no doubt that there was something very wrong with European paper demand in the first half year. The company seemed certain that all would come right in the end, but the market's only certainty was that ECC was only as strong as the paper industry itself. If it deserved a premium rating when paper demand was strong, the opposite must be true when it falters. The shares fell nearly 6 per cent as a result, and ECC traded its traditional premium rating for one slightly below the average.

If paper demand recovers to the 3 or 4 per cent annual growth expected all along, then such a drop in the share price will surely look excessive. If, on the other hand, the current weakness heralds a serious downturn, then worse may be in store for the shares: ECC has invested heavily recently in increased capacity, and the market is likely to take a dim view if the increase turns out to have been timed to coincide with market weakness.

Whatever happens to paper, the outlook for the construction materials division is reasonably reassuring. There is money to be made in construction materials, as most of the UK industry is busy demonstrating – though it is a nice irony that ECC should have to rely on that to improve its image, when its selling point is normally the uniqueness of its china clay.

## Barclays Bank

There is a certain machismo about the speed with which banks are wheeling out new fangled securities to boost their capital ratios. Yesterday, it was Barclays' turn to trumpet the benefits of a $200m issue of fixed rate non-cumulative dollar denominated preference shares, which are good enough to count as equity although the bank can redeem them after five years. In terms of Barclays' £5.8bn of shareholders' funds, an extra £120m is neither here nor there, but it does add 0.1 to its capital ratios. The bank is paying more than less highly-rated US banks which have tapped this market, but it would be surprising if the public's enthusiasm for this kind of paper matched the banks' appetite if the Barclays issue goes well.

## Norway

The times when Norway would like foreigners to buy its bonds seem to be precisely those times when they have other ideas. When outsiders were banned from the market five years ago, the Government was attempting to tighten policy to slow the economy, and was finding it distasteful to pay foreigners so handsomely for taking away its absolute control over interest rates. Now the position is rather different: interest rates in Norway have fallen markedly as the Government has succeeded in cutting consumer expenditure and turning around its trade deficit. Unfortunately, long-term rates of about 10.5 per cent make yesterday's gracious invitation to foreigners to return to the market easy to refuse: almost as much money can be made in gilts.

# US admits it lost nuclear bomb near Japanese island in 1965

By Robert Thomson in Tokyo and Peter Riddell in Washington

A HYDROGEN BOMB was lost in the Pacific in 1965 near the Japanese island of Okinawa, the US authorities confirmed yesterday.

In response to a report in Newsweek magazine, a US military spokesman said that a nuclear weapon had been lost when an A-4 Skyhawk aircraft fell from a US aircraft carrier in international waters about 80 miles from the closest point of the Okinawa Island chain.

The pilot was killed when the *aircraft carrying the one*-megaton bomb rolled off the carrier Ticonderoga on its way from Vietnam to the Japanese port of Yoosuka.

In Toyko, the issue has stirred concern about US military presence in Japan. It also touched a sensitive nuclear nerve on the day that Mr Michael Armacost took over as US ambassador to Tokyo.

A report compiled by a US group, the Institute of Policy Studies, and a version of the accident told to Japanese Government officials by the Pentagon in 1981 differ significantly in both placement of the aircraft carrier and when the aircraft and bomb were lost.

The Japanese Foreign Ministry *said yesterday* that the Pentagon report put the vessel more than 500 miles from land: "As far as we are concerned the operations were in international waters. We are not in a position to learn the details. We have to believe what the US Government says."

However, the US institute's report, carried in Newsweek, said the aircraft was only 72 miles east of the nearest Japanese island, and raised doubts about whether the Japanese Government had prior knowledge that the carrier had nuclear weapons. US warships docking in Japan are not supposed to carry such arms.

The big US military presence in Okinawa, a popular resort island, has become a sensitive issue. Anti-US activists there said reports of the hydrogen bomb accident showed the dangers of the close military relationship and could result in leakages of radiation.

# Rigging claim in Panama

Continued from Page 1

three to one against Mr Duque.

Mr Carter said in a television interview that the Panamanians had voted "very clearly and very freely," but the question was whether the votes were going to be counted accurately and the results revealed to the public.

The US State Department reported independent exit polls *projecting the opposition coalition* with 68 per cent of the vote and the regime coalition with 23 per cent. "At this juncture it appears clear that the people of Panama have voted for democracy. It is now up to General Noriega to respect the wishes of the Panamanian people," the State Department said.

The delays in reporting results, however, have given rise to fears of serious irregularities in the vote-counting process. Hourly television broadcasts giving updates on the progress of the elections were stopped suddenly on Sunday evening. About 18 hours after the polls closed, the national counting board announced it had not received any tally sheets from regional counting centres.

On Sunday night, there were reports of numerous incidents of pro-government supporters taking over polling stations after the count had been completed and then destroying the voting returns.

Early yesterday, troops reportedly assaulted a regional vote-counting centre where polling station returns were being collected.

*Senator* John McCain, an Arizona Republican and a member of President Bush's team of observers, said the mood in Panama was very tense, with allegations of fraud and occasional violence.

## WORLD WEATHER

| | | °C | °F | | | °C | °F | | | °C | °F | | | °C | °F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ajaccio | S | 23 | 73 | Dubrovnik | S | 15 | 59 | Malta | C | 19 | 66 | Rhodes | F | 20 | 68 |
| Algiers | S | 23 | 73 | Edinburgh | C | 15 | 59 | Manchester | S | 18 | 64 | Rio de J'o | C | 18 | 64 |
| Amsterdam | S | 17 | 63 | Faro | F | 20 | 68 | Manila | C | 34 | 93 | Rome | S | 18 | 64 |
| Athens | F | 17 | 63 | Florence | S | 22 | 72 | Melbourne | C | 14 | 57 | Salzburg | S | 15 | 59 |
| Bahrain | S | 30 | 86 | Frankfurt | S | 15 | 59 | Mexico City | F | 26 | 79 | San Francisco | Dr | 14 | 57 |
| Bangkok | C | 34 | 93 | Funchal | C | 19 | 66 | Miami | S | 18 | 64 | Seoul | C | 15 | 59 |
| Barcelona | S | 19 | 66 | Geneva | S | 17 | 63 | Milan | S | 21 | 70 | Singapore | F | 31 | 88 |
| Beirut | | – | – | Gibraltar | F | 20 | 68 | Montreal | C | 6 | 43 | Stockholm | C | 15 | 59 |
| Belfast | F | 15 | 59 | Glasgow | C | 13 | 55 | Moscow | C | 18 | 64 | Strasbourg | S | 18 | 64 |
| Belgrade | R | 8 | 46 | Guernsey | S | 14 | 57 | Munich | S | 14 | 57 | Sydney | C | 20 | 68 |
| Berlin | C | 13 | 55 | Helsinki | R | 7 | 45 | Nairobi | R | 14 | 57 | Taipei | C | 31 | 88 |
| Biarritz | S | 21 | 70 | H. Kong | C | 29 | 84 | Naples | S | 22 | 72 | Tangier | F | 19 | 66 |
| Bombay | S | 39 | 102 | Innsbruck | S | 16 | 61 | Nassau | C | 29 | 84 | Tel Aviv | S | 25 | 77 |
| Bordeaux | S | 24 | 75 | Inverness | C | 12 | 54 | New Delhi | S | 35 | 95 | Tenerife | C | 21 | 70 |
| Brussels | S | 16 | 61 | Islamabad | C | 33 | 91 | New York | C | 8 | 46 | Tokyo | S | 19 | 66 |
| Budapest | C | 13 | 55 | Istanbul | S | 15 | 59 | Nice | F | 18 | 64 | Toronto | C | 4 | 39 |
| B Aires | F | 17 | 63 | Jakarta | R | 32 | 90 | Nicosia | S | 22 | 72 | Tunis | S | 25 | 77 |
| Cairo | S | 27 | 81 | Jersey | S | 17 | 63 | Oporto | C | 17 | 63 | Valencia | S | 22 | 72 |
| Cape Town | F | 21 | 70 | Jo'burg | | – | – | Oslo | F | 15 | 59 | Venice | S | 18 | 64 |
| Caracas | C | 26 | 79 | Lima | F | 22 | 72 | Paris | S | 17 | 63 | Vienna | F | 15 | 59 |
| Casablanca | F | 21 | 70 | Lisbon | F | 20 | 68 | Peking | | – | – | Warsaw | S | 16 | 61 |
| Chicago | S | 8 | 46 | London | S | 21 | 70 | Prague | F | 10 | 50 | Washington | F | 8 | 46 |
| Cologne | S | 16 | 61 | Los Angeles | C | 15 | 59 | Reykjavik | S | 3 | 37 | Zurich | S | 16 | 61 |
| Copenhagen | F | 13 | 55 | Luxembourg | S | 15 | 59 | | | | | | | | |
| Corfu | S | 19 | 66 | Madrid | S | 25 | 77 | | | | | | | | |
| Dallas | F | 21 | 70 | Majorca | S | 22 | 72 | | | | | | | | |
| Dublin | F | 17 | 63 | Malaga | F | 22 | 72 | | | | | | | | |

*Readings at mid-day yesterday*

*C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder*

# PLO told to count cost of WHO move

Continued from Page 1

surges in influenza and recommends yearly vaccine blends.

Unlike some other UN agencies, WHO's regular budget is *not spent mainly on* headquarters administration. Roughly a third of its 4,500 staff work in Geneva, another third at regional headquarters and the rest in member countries.

WHO's most spectacular successes have been largely financed by extra, voluntary *funding for special* programmes. Smallpox was eradicated between 1967 and 1979 at a cost of $300m. In 1974, WHO launched its expanded programme on immunisation, which aims at protecting all the world's children from six diseases: measles, diphtheria, whooping cough, tetanus, polio and tuberculosis. By last year it estimated that half the children in the developing countries had been immunised against these and Dr Halfdan Mahler, then director general, committed the organisation to eradicate polio from the globe by the year 2000.

Of its regional programmes, one against river blindness (onchocerciasis) is estimated so far to have removed the risk of losing sight at birth from 3m children in seven countries in West Africa.

In 1987 WHO started a programme to develop a co-ordinated worldwide strategy *against AIDS*. This is expected to cost $205m in 1990 and 1991.

FINANCIAL TIMES
# COMPANIES & MARKETS
Tuesday May 9 1989



## INSIDE

### Scots and Spanish in pioneering move

For all the euphoria about 1992 that gripped the international banking community last year, there have hitherto been few alliances formed to exploit the single European market. One of them is between the UK's Royal Bank of Scotland and Banco Santander of Spain. Six months after their link-up, David Lascelles looks at what they have achieved. Page 24

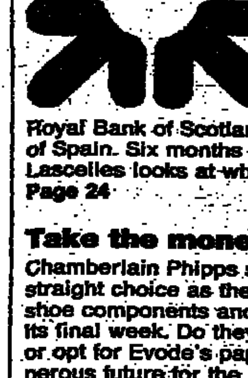
### Take the money or open the box

Chamberlain Phipps shareholders have a straight choice as the bid-battle for the UK shoe components and adhesives group enters its final week. Do they take Bowater's money or opt for Evode's paper and bank on a prosperous future for the merged Evode/Chamberlain? Last week, the Chamberlain board decided the values of the two offers were roughly equivalent and a merger with Evode has the greater industrial logic. But that may not settle the matter, writes Philip Coggan. Page 32

### Market shows green leanings

Anyone doubting the sincerity of much of the recent rhetoric on environmental issues can take heart from the stock market's enthusiasm for companies in the waste business. Since the start of the year, the shares of the half dozen quoted UK companies of this type have risen by an average of 37 per cent. Vanessa Houlder reports. Page 31

### Far East soars into skies



Hong Kong racked up two post-crash records to record a 5.3 per cent rise last week and Singapore ended the week 3 per cent higher after soaring to three post-crash peaks as the Asian stock markets' show left other world bourses looking decidedly dull. Page 50

### New life for gold

After a sharp decline which saw the number of mines in operation drop from more than 40 in the 1930s to just four in 1970, Ghana's gold industry is showing new signs of life. Over the past three years 70 prospecting licences have been issued and four mining leases granted. But not everybody is happy. William Keeling reports on the plight of the traditional miners, who feel they are losing out to foreign interests. Page 34

### High seas battle reaches court

Enterprise Oil, British Gas and Amerada Hess are preparing to face each other in court over their feud about which of them has rights to buy some or all of Texas Eastern North Sea, the UK oil exploration and production subsidiary of the US gas transmission company. Steven Butler explains the background to the case brought by Texas Eastern in its efforts to realise proceeds of the sale quickly and end the feud. Page 30

### Market Statistics



### Companies in this section



### Chief price changes yesterday

**FRANKFURT (DM)**

| Rises | | | |
|---|---|---|---|
| Nixdorf | 307 | + | 3.5 |
| Karstadt | 510.5 | + | 4.5 |
| Degussa | 463 | + | 4 |
| **Falls** | | | |
| Continental | 266.2 | − | 1.8 |
| Viag | 267.2 | − | 1.6 |
| RWE | 280 | | 1.5 |

**NEW YORK ($)**

| Rises | | | |
|---|---|---|---|
| Fairchild Inds | 17⅝ | + | 1½ |
| Ogilvy Grp | 52 | + | 2¼ |
| Tandy Brands | 28 | + | 2¼ |
| **Falls** | | | |
| AMR | 87½ | − | 1½ |
| Tidewater | 8½ | − | 1⅛ |
| UAL | 129 | − | 1¾ |

**TOKYO (Yen)**

| Rises | | | |
|---|---|---|---|
| Kyushu Elec | 4130 | + | 500 |
| Hokuriku Elec | 4180 | + | 500 |
| Caroline | 675 | + | 75 |
| **Falls** | | | |
| Shinwa Kaiun | 1180 | − | 90 |
| Sasaki Glass | 1550 | − | 100 |
| Kurimoto | 1440 | − | 90 |

Paris closed. New York prices at 12.30.

**LONDON (Pence)**

| Rises | | | |
|---|---|---|---|
| Airflow Stream | 286 | + | 20 |
| Body Shop | 548 | + | 9 |
| Caird Grp | 437 | + | 11 |
| Crown Comms | 258 | + | 9 |
| Ex Cp Louisiana | 108 | + | 13 |
| Guinness | 478 | + | 5 |
| Hornby | 205 | + | 7 |
| Iceland Frozen | 353 | + | 5 |
| Imry Merchant | 456 | + | 9 |
| Lloyds Chemists | 180 | + | 5½ |
| Rechem | 531 | + | 47 |
| Unigate | 365 | + | 13 |
| Wagon Ind'l | 385 | + | 11 |

| Falls | | | |
|---|---|---|---|
| Allied-Lyons | 462 | − | 9 |
| Bass | 945 | − | 9 |
| Eng China | 504 | − | 31 |
| Grand Met | 581 | − | 11½ |
| Hammerson | 791 | − | 5 |
| Marks & Spencer | 169½ | − | 5½ |
| Palma | 84 | − | 7½ |
| Racal Elec | 480 | − | 16½ |
| Sears | 118 | − | 6 |
| Trusthouse Forte | 304 | − | 16 |
| Utd Biscuits | 333 | − | 5 |

# Cracks appear in the Benetton rainbow

**Alan Friedman** examines the new strategic thrust of the colourful Italian fashion company

IS THE Benetton image fading? Or is the company's old magic still there, both in retailing and among international investors?

These are questions to which Mr Luciano Benetton, his managers and his investment bankers will find the answers in about two weeks' time, when the Italian casual clothing empire prices its first share offer on Wall Street and seeks to raise up to $145m from investors in the US, Canada, Japan and Europe.

Twenty-four years ago the then 30-year-old Mr Benetton founded an unusual clothing company in a village 20 miles north of Venice. The company combined bright colours, "fast food" fashion and industrial manufacturing, and became as much a marketing package of distinctive boutiques and distribution as a processor of wools and cottons. Today Benetton can boast nearly $1.1bn of sales a year from nearly 5,000 shops in 79 countries.

Three years ago the Benetton family floated 12.5 per cent of the company's equity on the Milan bourse. The current share price is 50 per cent below the levels achieved during the boom days of 1986, but the group is capitalised at $1.2bn.

Now, in a move to broaden its shareholder base and lay the groundwork for a new phase of international expansion, Benetton is taking a step that no other Italian company has attempted before: it is going directly to the American retail securities market to raise cash.

The international Benetton issue is to be made in American Depository Receipts (ADRs). It is the first time an Italian company has organised an SEC-registered placement of shares. Until now companies such as Fiat and Montedison have merely listed their stock on the New York exchange.

The upcoming financial operation is, according to Mr Aldo Palmeri, Benetton's energetic, Sicilian-born managing director, of a broader import. The 48-year-old Mr Palmeri, a former Bank of Italy official who joined Benetton six years ago, says the equity issue is aimed at:

- Broadening the company's shareholder base and achieving a 50-50 split between Italian and international investors.
- Instilling in an Italian company the kind of "discipline" that comes from having to conform to the requirements of the US Securities and Exchange Commission.
- Further popularising the name of Benetton as the group undertakes a new programme of expansion in North America and the Far East
- Raising funds that will be used to eliminate most of Benetton's short-term debt.

So far, so good. No one would question the fact that Luciano Benetton had a great idea and that the Benetton success story is a striking tale of Italian entrepreneurship. But as Benetton has grown dramatically, becoming less a family business and more a publicly quoted company, a few cracks have begun to appear.

Mr Palmeri is acknowledged by his peers to be a talented chief executive, but the group management in Italy is otherwise rather thin. Just a handful of key executives effectively run the group and from January 1988 until last month Benetton did not even have a group finance director, making do with a junior stand-in.

Luciano and his two brothers and sister, though they have executive board positions, are not deeply involved in day-to-day operations.

One of the most publicised – and perhaps misunderstood – of the Benetton family's expansion moves in the last couple of years has been into leasing, factoring, mutual funds, insurance and financial services.

But while there is a perception that this represents a diversification by the quoted company, the activity, run by Mr Giovanni Franzi, a former executive of Merrill Lynch, is kept separate from the quoted Benetton.

It is wholly-owned by Edizione, the Benetton family's holding vehicle. Also separate from Benetton is the recently acquired Nordica ski boot business. It too is owned by Edizione.

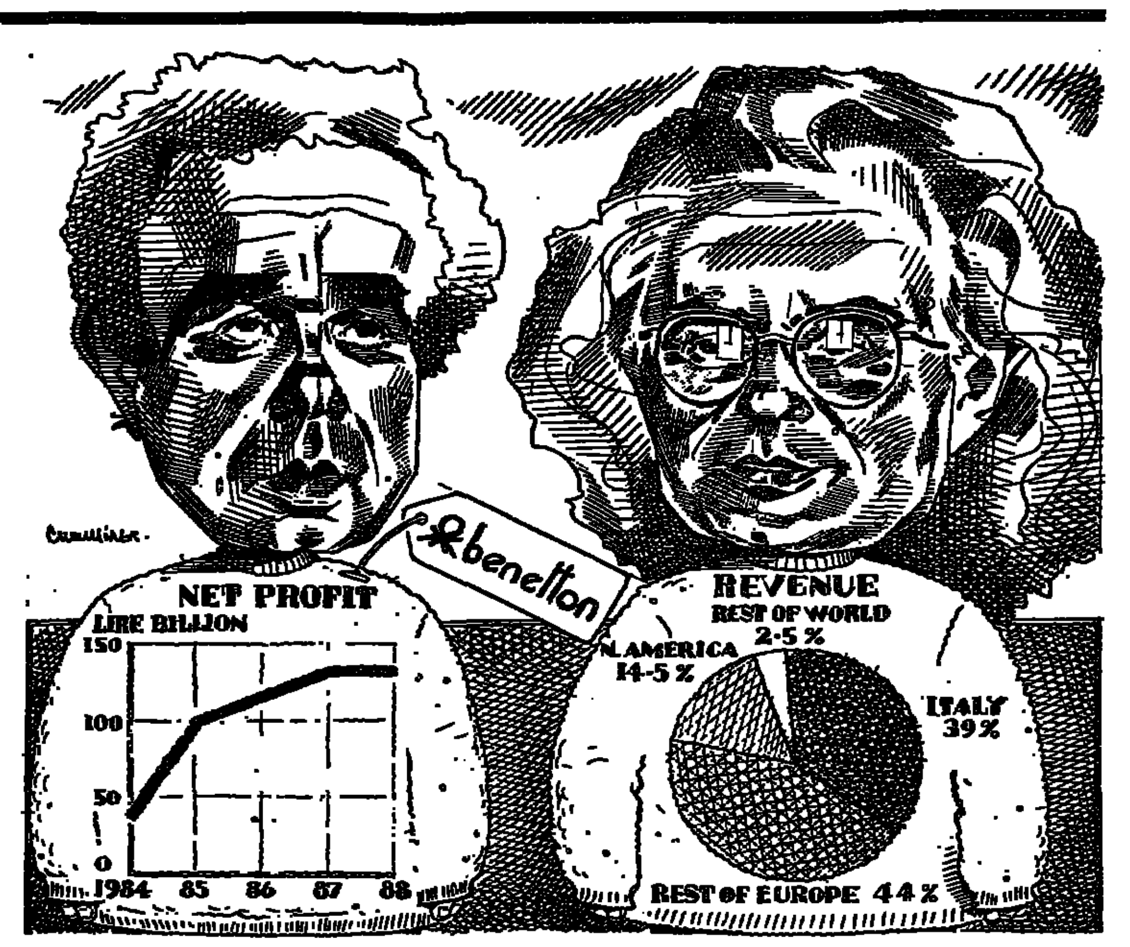
Mr Palmeri denies that Benetton executives spend company time on personal Benetton family interests, but clearly there are links. Last year, for example, two thirds of Benetton's 17 per cent rise in revenues came from the acquisition of shoe, yarn and shirt businesses that were owned previously by Edizione.

On the trading front, 1988 profits were flat as Benetton cut margins to maintain market share, both in the difficult US market and elsewhere.

In the US the company has built up a substantial presence of more than 700 shops in recent years – at a time when the clothing sector there has come under strain.

But Benetton also has more specific US problems: its policy of having a cluster of shops located near to one another has not been a success. Most seriously, there has been a public row between wholesale distributors and shop-owners, some of which are suing Benetton for allegedly unfair trade practices and alleged violation of franchise statutes.

Seven months ago Mr Palmeri brushed away the US lawsuits, saying they were insignificant. In Benetton's SEC filing it is acknowledged that the Federal Trade Commission is investigating Benetton's retailing practices. The Benetton system is not strictly like a US franchise model as there are no royalties; instead shop owners must buy exclusively from Benetton and conform to a set of standards. Mr




Aldo Palmeri (left) and Luciano Benetton: aware of the need to strengthen US management team

David Buck, a textile sector analyst at Barclays de Zoete Wedd (BZW) in London, says that, while he admires the company, it has "a credibility problem" in the US. "I think, however, they are taking steps to rectify things."

In an interview last week Mr Palmeri admitted that in the US "we need to define a new, aggressive strategy, we need to strengthen our management beyond 10 people and we may need some different people".

In particular, Benetton is trying to reorganise by seeking larger retail sites. This has led some Benetton shop owners to accuse the group of trying to drive them out of business.

Some critics say that Benetton's lustre is beginning to fade with retail customers in America, and that dollar prices may be too high for what is essentially a middle-market product.

Mr Paolo Cusmano, an associate director at County Natwest in London, points out that when the dollar is weak against the lira, prices of Benetton clothes are not attractive in the US.

Mr Buck and other analysts say that to its credit the company is busy creating a "family of brands" which go beyond the Benetton name to include the "0-12" children's line and the "Sisley" sports line. The group is also licensing its name for the marketing of underwear, shoes, perfumes, cosmetics, eyeglasses, watches and sheets and linens.

Mr Palmeri says that the new strategic goals are to remake the US operation, to license more products and to expand significantly in Japan, South Korea, Singapore, Thailand, Indonesia and India. He wants to turn local production licensing accords into joint ventures so that Benetton can consolidate its Far Eastern revenues into its balance sheet.

This year he expects a 15 per cent rise in group turnover to around L1,700bn ($1.2bn), but the Far Eastern expansion should produce "a big jump in sales" in 1990.

The ultimate goal, says Mr Palmeri, is to achieve a three-way revenue split among Europe, North American and the Far East; last year 83 per cent of sales came from Europe alone.

So is Benetton's image fading? The answer is probably that the initial novelty and excitement has worn off with many consumers in Europe and the US, which is why the Benetton management is poising itself for a re-launch in traditional markets and a move into newer areas.

Retail equity buyers on Wall Street may be excited about the famous Benetton name. But the hard part for the company's managers will come long after the Wall Street thrill is gone.

# Norway opens bond market to foreigners

By Karen Fossli in Oslo

NORWAY'S bond market will throw open its doors to all comers from today after five years of isolation during which foreign investors had been kept at bay.

The move, which has been widely anticipated following the recent gradual relaxation of other currency regulations, is expected to trigger similar action by Sweden later this year.

The Bank of Norway linked the deregulation with a further cut in Norwegian interest rates. It is reducing its overnight lending rate by half a point to 10.5 per cent. Central bank marker rates have fallen 3.3 percentage points in the past year.

"The improved external balances, reduced inflation and lower interest rates put us in a position to open up the bond market to foreigners," Mr Gunner Berge, Finance Minister said.

The bond market was closed to foreign investors in 1984, amid government fears that they were taking too large a slice of the market and endangering interest rate stability.

The official view yesterday was that the ministry felt the market could be opened without creating instability, large movements in bond holdings or major fluctuations in interest rates.

Certainly the operation gives the appearance of being firmly stage-managed. On Friday the Government is due to unveil its revised budget and this is expected to indicate a surplus on the current account for 1989 of more than NKr10bn ($1.45bn).

This would compare with a 1988 deficit of NKr16bn. Higher oil prices coupled with a higher volume of crude oil production have contributed to the improvement. In 1988, sales of bonds in Norway fell to NKr99.1bn from NKr129.8bn the previous year, and government bonds, for which the central bank is the market-maker, saw little activity in the first half of the year.

Sales of krone-denominated bonds to foreign investors will be allowed only if they are listed on the stock exchange and handled through the exchange's clearing system. The bonds will have a minimum maturity of 12 months, although there would be no limit on amounts traded or held. Trading will be through licensed Norwegian brokers.

The Finance Ministry said it thought opening the bond market would contribute to a further decline in Norwegian interest rates.

Lex, Page 22

# WPP confirms higher proposed bid of $800m for Ogilvy

By Anatole Kaletsky in New York and Nikki Tait in London

WPP, THE UK-based advertising group, yesterday confirmed that it had raised from $45 to $50 a share its proposed bid for Ogilvy Group, the New York-based agency. But Ogilvy immediately made clear it would not be rushed into negotiations or any other defensive response to the WPP move.

The US company confirmed that it had received a letter from WPP, which is headed by Mr Martin Sorrell, in which the company said that it was revising its proposed offer price. But Ogilvy insisted that that the proposal would be considered in "a proper manner and in due course". At the new proposed level, the bid would be worth more than $800m, compared with $720m previously.

As well as stressing that they would not be rushed either into immediate negotiations or into a defensive response such as a leveraged buyout, the Ogilvy executives denied speculation that the company would bring forward its board meeting, currently scheduled for May 16.

They added that reports of a possible leveraged buyout had been greatly exaggerated. While Ogilvy had been approached by several of Wall Street's leading LBO firms, there had been no negotiations with any of them.

Wall Street responded to the higher offer by pushing Ogilvy's shares up $2¼ to $52 in heavy over-the-counter trading. Arbitrageurs justified the premium to WPP's latest offer partly by the hope of a negotiated deal at a still higher price and partly by rumours that Ogilvy was trying to defend itself by arranging a leveraged buyout. In London, WPP's price shed 13p to 591p, although the company pointed out that the shares went ex-dividend yesterday.

WPP said that it had made the revised proposal "after careful consideration, in order to avoid unnecessary and potentially unsettling delay in the negotiation of a friendly transaction". It added that the $50 a share offer was subject to a recommendation by the Ogilvy board, and urged directors to consider it "without further delay".

It also said that the new offer was accompanied by a letter from the group's financial advisers in the UK, Samuel Montagu, stating that they were highly confident that funding could be arranged.

# English China Clays disappoints market

By Clare Pearson in London

ENGLISH CHINA Clays, the industrial minerals and construction group, yesterday disappointed the market with an advance in interim pre-tax profits from £59.9m ($101m) to £66.3m and a downbeat statement on second-half prospects. Its shares fell 31p to 504p.

The lack-lustre profits advance in the half-year to March 31 was attributed chiefly to slower growth in the European paper industry.

The company's sales were £461.4m (£417.5m). Earnings per share rose to 19.56p (18p) and the interim dividend is set at 6.6p (5.8p).

ECC said it had expected the rate of growth in European demand for kaolin, which is mainly used for coating paper, to be similar to 1988's hectic pace. In the event, it had decelerated, while ECC may also have experienced "some small loss in market share, admitted Mr Stanley Dennison, chief executive.

There was a sharply adverse effect on profits not only because paper clays provide the highest margins but also because the company had invested heavily to cope with demand levels that did not materialise.

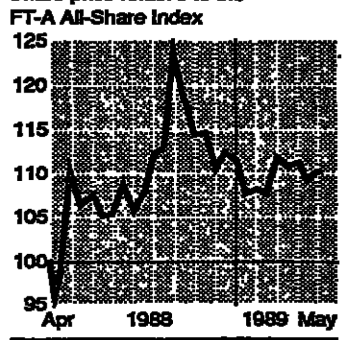
Also depressing the pre-tax line was a rise in interest charges to £9.1m (£4.3m) reflecting a rise in debt to £200m (£132m) as acquisitions were made.

On the outlook for kaolin demand, Mr Dennison said: "I see no good reason why solid growth should not resume." ECC had restored stocks to prepare for any sudden increases in orders.

However, the crucial catalogue printing season, the period of heaviest demand for coated paper, was not yet underway.

Quarrying performed strongly during the first half, providing operating profits of £17.3m (£13.8m) and Mr Dennison said he expected continued strong performances from the aggregate and surfacing businesses.

**English China Clays**
Share price relative to the FT-A All-Share Index




But, regarding the building products sector, he said that "the rate of growth could be lower in the second half than in the first", even if interest rates did not rise further.

The international division overall produced operating profits of £38m (£37.2m) on turnover of £258.9m (£226.6m).

Demand for kaolin for ceramic purposes was strong. Carbonates too showed good sales growth, but the US carbonate producing operations continued to suffer losses.

ECC Construction, including the stake in Bryant Group, the housebuilder, put in £22.4m (£14.4m). House sales fell off in the south of England although they held up in the Midlands and north, where margin gains were achieved.

The company said that it was difficult to predict the second half for the construction side. It was taking every opportunity to add to its land bank in a more stable land market than last year and was seeking new selling outlets for its houses.

The drilling fluids division fell into a £700,000 loss, against an £800,000 profit.

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# Shareholders back Magnet buy-out bid

By David Waller in London

MAGNET yesterday took a giant stride towards ending its controversial stock market career as it emerged that more than half the company's ordinary shareholders had accepted the management's £629m ($1.05bn) buy-out bid.

At the first closing date on Friday last week, shareholders with 51.6 per cent of the ordinaries backed the 300p a share bid for the Yorkshire kitchen company – a higher figure than predicted by either the City or the management team and its advisors.

The level of acceptances for the separate £73m offer for the company's convertible shares – the terms of which have attracted institutional disquiet – was also higher than expected, at 28.9 per cent.

The offer is by far the largest buy-out proposal for a quoted British company and, although it has many unique features, its success is seen as something of a test case for the future of leveraged buy-outs in the UK.

The offer has been extended until 3p.m. on Friday May 19. Although the level of acceptances made it technically possible for the management team to declare the bid unconditional, the aim is to get to 90 per cent so as to be able to buy out any minority shareholders.

Mr Tom Duxbury, chairman of the company, claimed a "resounding endorsement" of his plans. "We are delighted to have got so far so quickly," Mr Duxbury said yesterday. "We should get there before June 13 [the last date for the bid to succeed under takeover rules]".

Magnet's ordinary shares added 3p to 293p, reflecting City belief that the chances of the bid succeeding are now very high. A counter-offer from a third party is thought unlikely so late in the day, and the only obstacle appears to be institutions' objections to the convertible offer.

Sun Life, which owns over 10 per cent of this category of share, has made it clear that it objects to the structure of this part of the bid, which is 25p in cash, plus a new convertible share valued at 80p by Hoare Govett.

Sun Life would not make any comment; Mr Duxbury said that "very delicate negotiations" were now taking place.

A Stock Exchange listing for the new shares is being sought, which the managment team hopes will go some way to meeting institutional concerns about the marketability of the new instrument.

The high level of acceptances was attributed by analysts to a growing belief that no competing bid would emerge; shareholders also are worried about Magnet's trading prospects as a retailer in an era of high interest rates.

# Ares-Serono earnings up by 27% in first quarter

By William Dullforce in Geneva

ARES-SERONO, the Swiss-based pharmaceuticals and diagnostic equipment group, yesterday reported a 27 per cent climb in net earnings to $14.57m in the first quarter.

Sales at $117.8m were 13 per cent ahead of the figure for the first three months of 1988. The company, which reports in dollars, said turnover growth would have been 20 per cent, if the negative effect of currency fluctuations, including the stronger dollar, were excluded.

Earnings per share for the first quarter were $26.80 compared with $21.02 in the corresponding period of 1988.

Pharmaceutical sales advanced by 5 per cent to $93.9m despite a sharp decline in sales in Italy under the impact of the increase in patients' part payments introduced by the Government.

Diagnostic sales at $19.6m were up by 76 per cent over the first quarter of 1988, boosted by the acquisition late last year of Baker Instruments in the US.

Highlights of the first quarter included the launch of Ares-Serono's own sales forces in Japan and Belgium and the registration of 10 new pharmaceutical products in major countries.

# Beijer lifts offer for Brinkmann Instruments

By Our Financial Staff

BEIJER INDUSTRIES, the Swedish industrial group, has raised its offer for Brinkmann Instruments of the US, resulting in an agreement to buy a more than 50 per cent stake held by two major Brinkmann shareholders.

The revised offer, raised yesterday by $1 a share to $18.50, increased the value of Beijer's April 10 cash bid for all outstanding common stock in Brinkmann to SKr460m ($71.5m) from SKr440m.

"I can now state that the acquisition of Brinkmann will go through as planned," Mr Anders Wall, Beijer chief executive, said. Brinkmann markets and distributes laboratory instruments.

VOLKSWAGEN, the West German motor group, will invest DM200m ($105.3m) this year in Japan to set up a wholly-owned distribution and servicing network, VW's Japanese subsidiary said yesterday.

Mr Robert H. Janson, executive vice president of Volkswagen Asia, said the investment would be followed by a total of another DM400m by mid-1990s.

The new sales company, tentatively named Volkswagen-Audi Nippon, will initially complement Volkswagen's existing Japanese distribution system operated by the maker's authorised importer, Yanase, before gaining total control of the marketing of Volkswagen and Audi products in Japan.

ERB GRUPPE, a Swiss services and industrial group, is to acquire an 80 per cent stake in the coffee trading activities of the Swiss commodities company GEBRUEDER VOLKART HOLDING.

Erb Gruppe has annual sales of SFr1.76bn ($1bn), about the same as that of the coffee trading business it will take over. Terms of the deal were not disclosed. Volkart will retain its cotton trading, finance and service companies.

Management of the coffee division will take a 20 per cent stake in the coffee business, which will be grouped under the name Volcafe.

# Taking stock of a pioneering alliance

## David Lascelles examines Royal Bank of Scotland's link-up with Banco Santander

The 1992 euphoria which gripped the international banking community last year has thus far been remarkable more for the lack of ensuing action rather than a surfeit of it. Despite all the EC strategy committees bankers have set up, the number of deals that has resulted is still in single figures.

One of the few examples of banking alliances formed specifically to exploit a single European market is that between Royal Bank of Scotland and Banco Santander of Spain.

The alliance, formed last October, was cemented by a cross-shareholding with Santander buying 9.9 per cent of Royal and Royal buying 2.5 per cent of Santander. The idea is to combine the strengths of two banks which are relatively small in Europe as a whole, but have similar features, such as a strong regional presence, and an ambition to enlarge their geographical reach.

Six months later, both banks are keen to highlight the progress they have made, though there are few palpable business results and other bankers have not yet been willing to embark on a similar route.

"This means we will have a presence in all the major markets of Europe, and will be sharing the costs," said Mr Matias Inciarte, Santander's finance director, who is pleased both by the level of co-operation and the return his bank has received on its investment in the Royal.

The arrangements so far include:

● Personal banking: RBS customers will be able to use 50 Santander branches in Spanish holiday resorts, with a similar arrangement for Santander customers at RBS' Knightsbridge branch in London. They are also linking cash machine facilities. A jointly owned bank is being formed to serve the UK expatriate community in Gibraltar and Spain.

● Business banking: the two banks have appointed representatives in each other's capitals to speed the flow of banking services to corporate customers. They are also working together in corporate finance, venture capital and merchant banking.

● Franchising, stock custody and settlement, and technology: are further areas where the two banks see scope for co-operation. A joint approach to hardware and software purchases has been adopted, and ultimately the two banks hope customers will be able to access their accounts from any part of the alliance network.

Two specific projects located in third countries are underway. One is the joint development of CC Bank, Santander's subsidiary in West Germany (in which RBS has bought 50 per cent), and the other is a joint banking venture in Belgium.

In order to underpin these contacts the two banks have formed a surveillance committee of chief executives and strategy directors which meets every six weeks. Banco Santander is also being hooked up to the video conferencing link which RBS already has between London and its Edinburgh headquarters.

The actual amount of business the two banks can so far point to is small, not surprisingly perhaps. One specific deal which is cited was Spain's largest management buy-out at General Cable in which the two banks' merchant banking subsidiaries, Banco Santander de Negocios and Charterhouse Bank acted as co-lead managers.

Mr Charles Winter, Royal's chief executive, described the alliance's contribution to his recent interim results as "in six figures rather than seven." But he said it was too early to see the full benefits.

Of the two banks, Santander is, at present, the most widely represented in Europe. Apart from the CC Bank, it has a 10 per cent stake in Banco de Comercio e Industria of Portugal and 30 per cent of IBI, part of the large Cariplo savings bank group. Royal only has any significant representation in France through a branch and a small finance house.

Mr Inciarte said that France was now the country where the alliance most needed to strengthen its presence, and he predicted this would be done either through a link-up with a local bank, or through an acquisition if a suitable one came up. However, both banks stress that any future agreements would only be for specific country markets. Each bank has pledged not to form wider alliances with other banks. "We don't want our board looking like the United Nations," says Mr Winter.

In a new study of UK bank strategies in Europe, S.G. Warburg Securities takes quite a bullish line on the possibilities of the alliance. It estimates the profit potential to Royal Bank of some £10m ($16.7m) a year but adds: "This figure should be capable of doubling or tripling if the scale of co-operation at present envisaged can be realised."

Warburg expects the focus to be on Italy, France and Portugal, with Charterhouse possibly seeking a link with a French counterpart.

The reaction among other bankers has been one of cautious interest. Many of them are keen to know how the alliance is progressing, though they are sceptical that much can be achieved on the basis of a small cross-shareholding. "You need more control than that," says a senior UK clearing banker who watches RBS closely.

There is also the worry than such an arrangement would cut them off from dealing with other banks in the partner's country (though both RBS and Santander deny this is happening).

A strong element of self-defence may have provided both banks with part of their motivation. But now that they have set their contacts in motion, the next 12 months should show whether they produce extra business and profits.

Lyda van der Meer

Santander's Emilio Botin (right) with Charles Winter

THE TWO BANKS COMPARED*

| | RBS | Banco Santander |
|---|---|---|
| Pre-tax profit (£m) | 309.2 | 309.9 |
| Equity (£m) | 1,269.7 | 1,008.1 |
| Assets (£m) | 21,659.9 | 15,206.8 |
| Branches | 857 | 1,998 |
| Employees | 23,174 | 15,500 |

* End-1988 figures. Source: 1988 annual reports

# Orenstein and Koppel chief quits after 'differences'

MR Karl Heinz Siepe, chairman of Orenstein and Koppel, the West German construction equipment group which is 75 per cent owned by capital goods group Hoesch, is to leave the company, writes David Goodhart in Dortmund.

Mr Detlev Rohwedder, chairman of Hoesch, said yesterday after announcing an 18 per cent rise in Hoesch's 1988 group net profits, that differences had arisen with Mr Siepe over the relationship between O&K and Hoesch. It appears that personal differences also played a role.

O&K, which has annual sales of DM2bn ($1.05bn), will this year be consolidated by Hoesch. It will now be run by Mr Karl Friedrich Goldücke, another Hoesch executive.

Group net profits at Hoesch rose to DM58m last year from DM49m, while group operating profit jumped 53 per cent to DM292m from DM191m.

Group sales increased 13.7 per cent to DM8.34bn from DM7.34bn on strong demand for its products. The acquisitions carried out during the year had less of an impact on the sales figure.

Commenting on developments in the first part of Hoesch's business year, Mr Rohwedder said that growth was continuing strongly.

Looking back at 1988 he said that 50 per cent of profits had come from steel and that 50 per cent of the company's assets are still tied up in the steel business.

He commented that although steel would be playing a smaller part in the company's future development, "we have no reason to play down the role of steel or pretend that we are on the way to becoming a high-tech firm." Mr Günter Flohr, a member of Hoesch's managing board, said the company "reckons with a continued strength of demand (for steel) for the next 18 months" due to the combination of factors such as strong growth in the construction, automobile and capital goods industries.

# Henkel steps up dividends

By Our Financial Staff

HENKEL, the West German household chemicals concern, is raising its 1988 dividends following a 21 per cent increase in group net income to DM352m ($185.4m) from DM292m.

Henkel said it would pay a dividend of DM8.50 for each preferred share, up from DM8 in 1987. The payout for ordinary shares, which are all held by the Henkel family, is raised from DM5 per share to DM5.50.

## INTERNATIONAL COMPANIES AND FINANCE

# Regal Hotels hoists profit by 52% to HK$262.5m

**By John Elliott in Hong Kong**

REGAL HOTELS group of Hong Kong, controlled by Mr Lo Yuk Sui, yesterday reported a 52 per cent increase in net profits for the year to December which totalled HK$262.5m (US$33.7m) compared with HK$172.34m.

Turnover rose 42 per cent to HK$771.9m. During the year Regal's three Hong Kong hotels cashed in on the colony's hotel boom with average occupancy rates of 87 per cent to 95 per cent and average room rate increases of between 16 per cent and 22 per cent.

Last October Mr Lo attracted international attention with an unsuccessful bid for Hongkong and Shanghai Hotels owned by the Kadoorie family, whose flagship is the colony's Peninsular Hotel. The bid was made through Mr Lo's associated Cathay City company.

Earlier in the year Mr Lo joined the growing number of Hong Kong entrepreneurs investing in hotels abroad when he bought a 51 per cent interest in the Constellation Hotel in Toronto for C$56.1m (US$47.4m) and 51 per cent of Aircoa of the US for US$50.2m.

Renamed Regal-Aircoa, this is the largest independent hotel company in the US and operates 152 hotels with an equity interest in 36 of them. Regal holds 46 per cent while 5 per cent is held by Richfield International Land and Investment, another Y.S. Lo company.

Mr Lo said yesterday that his group now ranks among the 20 largest hotel management groups in the world which would "greatly facilitate further global expansion."

A final dividend of 10 cents per share is being recommended, making a total of 12.5 cents for the year, 21 per cent above the 10.3 cents paid for 1987.

# Plant upgrade lifts Lion Match

**By Jim Jones in Johannesburg**

LION MATCH, Wilkinson Sword's former South African affiliate, increased sales and profits in the year to March as strong consumer demand coincided with the availability of new production facilities.

The directors warn that tighter household budgets and higher interest rates will affect the present year's performance but expect a further increase in earnings.

Turnover increased to R230.4m ($89.6m) from the previous year's R189.5m, the operating profit before interest and tax rose to R25.4m from R17.8m and the pre-tax profit was R20.3m against R15.3m.

In recent years Lion has diversified away from its core match and shaving products businesses into packaging and small household appliances. The directors say last year's principal emphasis was on much-needed plant upgrading and manufacturing extensions, implying Wilkinson Sword had not maintained plant in optimum condition.

Last year's expenditure on plant replacement and working capital lifted total assets by R35m. Long-term debt increased by R15m to R42.8m, which has led to the directors' concern over interest charges following last week's bank rate increase.

Net earnings increased to 27.6 cents a share from 22.1 cents but the dividend has been cut to 11 cents from 35 cents.

The previous year's distribution was increased to allow Wilkinson Sword to externalise its divestment funds at the favourable commercial rand exchange rate.

Lion Match is now controlled by South African Breweries.

# Poor controls hit Corbank net

**By Jim Jones**

CORPORATE Bank (Corbank), Hill Samuel's former South African subsidiary, has blamed inadequate management controls in part for a cut in disclosed income in the year to March. Sharply increased interest rates also affected the result.

Disclosed profit after tax and transfers to contingency reserves fell to R2.19m ($852,000) from the previous year's R3.76m. Earnings per share dropped to 14.5 cents from 25.4 cents. At the half-way stage the interim dividend was raised to 5.25 cents from 4.5 cents, but the bank's deteriorating financial position has led the directors not to pay a final dividend. Last year's final payout was 5.5 cents.

Mr Laurie Korsten, the company's chief executive, says inadequate systems management failed to identify potential losses in the bank's options and fixed rate investment operations and in its money and capital market businesses. Mr Korsten does not quantify the realised losses but says that business practices are now more conservative.

Corbank recently diversified into instalment finance in response to strong consumer spending growth last year. Last week the authorities announced further measures to curb consumer spending and credit creation. Mr Korsten says the bank's corporate finance and investment banking divisions performed exceptionally well in the past year and are to be expanded.

# Keeley Granite doubles sales

**By Jim Jones**

KEELEY GRANITE, South Africa's largest exporter of black granite, more than doubled sales in the year to February and has undertaken a big mechanisation programme at its quarries in the Transvaal and the black "homeland" of Bophuthatswana.

The year's turnover was R144.5m ($56.2m) against R65.6m in the previous year and the pre-tax profit rose to R38.5m from R14.7m. The directors attribute the sales increase to higher international demand for the company's granite as architects place greater emphasis on hard-wearing and maintenance-free building stones in preference to previously popular marbles which are soft and affected by acid pollution.

Keeley's granite production rose to 300,000 tonnes in the year from 200,000 and the board expects further growth in demand for coloured and black granites.

Net earnings increased to 91.9 cents a share from 42.5 cents and the year's dividend has been raised to 55 cents from 11 cents.



# Sri Lanka sell-off offer to Japanese

**By Mervyn de Silva in Colombo**

MITSUBISHI MOTORS of Japan will be offered between a fifth and a quarter of United Motors, a Sri Lankan vehicle distributor, in the first privatisation venture of the newly-elected Premadasa Government.

The Government will next month launch a SRs100m ($2.96m) share offer to the public. Sri Lankans can have a maximum 10 per cent shareholding. United Motors was made a "government-owned business undertaking" under the Business Acquisition Act of the Bandaranaike Government in 1972.

Mitsubishi is being offered its stake because United Motors is local agent for its vehicles. Last year pre-tax earnings of United Motors totalled more than SRs47m.



# Coles Myer and TNT on course for good year

**By Chris Sherwell in Sydney**

TWO OF Australia's largest companies, the TNT transport group and retailer Coles Myer, yesterday reported third quarter figures pointing to buoyant performances for the full year.

For TNT, group equity accounted operating profit after tax and minorities for the nine months was A$148m (US$118.5m), up 17.1 per cent from A$126.4m for the comparable period the previous year. Revenues were 7 per cent higher at A$2.88bn.

Coles Myer, one of the world's largest retail groups outside the US, announced sales but not profit figures for the three quarters. These showed an overall 14.1 per cent increase on the first nine months last year, to A$10.6bn.

In a commentary on the figures, TNT said its European operations had absorbed heavy costs associated with developing the TNT overnight air express service, and warned that the heavy expenses would continue for some time.

In Australia the group's operations made record contributions to group revenue and profit. But its Skypak division recorded an overall operating loss.

Overall, directors said they expected full-year profit to be ahead of last year's.

Coles Myer said that, in spite of a levelling off in demand, it expected to maintain acceptable profit margins. Consumer confidence was low, it said, and the future depended upon the effect of recently announced income tax cuts and changes in the inflation rate and domestic interest rates.

# Varity clinches $640m takeover of Fruehauf

**By David Owen** in Toronto

VARITY, the Canadian industrial and agricultural machinery manufacturer formerly known as Massey-Ferguson, is finally set to acquire Fruehauf of Detroit in a deal valued at US$640m.

The transaction, which will be paid for in a combination of cash, notes and common stock, concludes a determined and twice-rebuffed nine-month courtship by Varity.

The move promises to be an important strategic step for the once-beleaguered Toronto-based company. The addition of Kelsey-Hayes (Fruehauf's sole remaining asset) promises both to boost to some $1.5bn the annual revenues of Varity's automotive parts operations, and significantly to swell its operating assets in the US, where it has about $500m in tax loss carry-forwards.

In 1988, Michigan-based Kelsey made profits of $60m on revenues of $1.1bn. Heavily-indebted Fruehauf, by contrast, lost $36m on sales of $2.1bn.

Under the terms of the complex transaction, Varity will pay just $66m in cash, supplemented by some 55.5m new common shares and $430m principal amount in notes guaranteed by the company. A further 2.5m new shares will be issued to pay for "certain expenses."

In addition, Fruehauf common and preferred stock will be converted into a combination of Varity common shares and Kelsey-Hayes subordinated notes. Varity is also offering to exchange Fruehauf subordinated notes and debentures for cash and more Kelsey-Hayes notes.

The 1:1 conversion rate accorded to Fruehauf common stock is subject to downward adjustment based on the final purchase price to be paid by Terex Corporation of Wisconsin for Fruehauf's unprofitable trailer and maritime sectors.

Earlier this year, Fruehauf agreed to sell these units for $169m in cash and Terex's assumption of $63.1m in long-term debt, in a deal scheduled to close on May 15.

In its year to January 31, the company reported net income of $81.7m, the highest level since 1976, on sales of $2.3bn.

# Higher oil production lifts profits at Norcen

**By Robert Gibbens** in Montreal

HIGHER OIL production and better prices boosted profits at Norcen Energy Resources in the first quarter.

Earnings were C$32.7m (US$27.7m), or 52 cents a share, up from C$30.8m or 49 cents, on revenues of C$222m, against C$203m. The company expects higher output in Canada, the US, and Australia and better earnings for the rest of the year.

Bow Valley Industries, the energy group, earned C$7.2m or five cents a share, against C$7.4m or seven cents a year earlier, on revenues of C$81m, against C$59m.

New oilfields in Indonesia and Britain raised production by 16 per cent in the first quarter, while gas output in western Canada more than doubled.

Canadian Pacific, the diversified transport group, will probably fall short of its target 15 per cent return on equity this year, despite restructuring, Mr William Stinson, president, told the annual meeting in Calgary.

"Though we expect good earnings for the rest of 1989, they are unlikely to reach the level of 1988," he said.

The main factors are the impact of drought in Western Canada on rail earnings, the higher Canadian dollar and slackening newsprint markets. A decline in grain shipments due to low inventory could reduce CP's rail revenues by about C$100m this year.

Mr Stinson said the energy, real estate, hotel businesses and telecommunications sectors will report higher profits this year.

Tembec, a large special pulp and cartonboard producer in north-western Quebec, is buying control of Normick Perron, eastern Canada's leading timber, plywood and panelboard maker, in a bid worth C$117m.

# Air fare wars hit PWA into loss

**By David Owen**

PWA, the Calgary-based company which owns Canadian Airlines International (CAI) and recently bought Wardair, reported a net first-quarter loss, due to the impact of recent fare wars in its domestic market.

Net losses totalled C$17.5m (US$14.8m) or 87 cents a share, compared with a profit of C$8m or 33 cents in the year-earlier period. Revenues edged ahead to C$528.9m from C$526.4m in 1988.

Results were buoyed in the year-ago period by a strike at Air Canada, CAI's main rival.

# Bethlehem pay deal to test steel

**James Buchan** on an offer that could be crucial for the US economy

The steel industry: facing higher wage costs

A preliminary agreement to raise wages at Bethlehem Steel by over 20 per cent over the next four years is likely to have a big impact on the US steel industry and may send reverberations through the US economy.

Some economists warn that the deal, if imitated by the other big steelmakers, will disrupt a still convalescent industry and transmit inflationary pressure into corners of the economy ranging from motor manufacturing and machinery to food packaging.

The pay increase may also make it harder for the industry to lobby for continued protection from foreign steel imports.

The tentative four-year agreement, which was announced by the United Steelworkers and Bethlehem on Friday, restores to the company's 20,000 steelworkers a wage cut of about 8 per cent that they reluctantly accepted in 1986.

In effect, the contract gives long-suffering steelworkers at the company's six plants their first rise in living standards since steel demand collapsed and Bethlehem plunged into loss in 1982.

In common with the rest of the industry, Bethlehem is enjoying a revival of its fortunes, with strong steel markets and sharply improved productivity.

But the company has also agreed to wage increases of $1 an hour in 1991, a cash bonus and the restoration of holidays which raises the value of the deal to more than 30 per cent, according to estimates on Wall Street.

There is also anew profit-sharing agreement. Economists warn that Bethlehem, in a bid to prevent any disruption to its business, may have conceded an increase in costs which will haunt the company if the market turns down. Already raw material costs have risen sharply this year.

The contract is likely to be approved by the rank and file at the six Bethlehem plants and is sure to dominate current pay negotiations at three other large integrated steelmakers, Inland, National and Armco. The current wage contracts at these companies expire at the end of July.

Mr Christopher Plummer, a steel economist at the WEFA group in suburban Philadelphia, said: "This really isn't a good sign. The others will most likely follow suit and be locked into these rates for four years and there could surely be a market downturn in that time.

It's still a tough world steel market out there." Mr David Hale, an economist at Kemper Financial Services in Chicago, said: "The good news is that it's over four years. The bad news is that it's 8 per cent upfront, which is high."

The key question is whether Bethlehem and the other steelmakers can pass their costs on to such big steel-using industries as the motor manufacturers and machinery makers.

Mr Hale said: "Either profit margins are squeezed or inflation will rise. Wall Street has to recognise the trade-off."

Last year, the steelmakers raised their prices by 12 per cent, but two attempts at price rises this year have run into resistance.

Increased prices will also depend on whether the industry succeeds in persuading the Bush Administration to extend the so-called Voluntary Restraint Agreements, which have limited steel imports to around 20 per cent of the market for the past five years.

Economists say that "generous" wage settlements will undermine the industry's case for protection. Professor Gary Hufbauer, an expert on trade policy at Georgetown University in Washington, said: "The VRAs will be renewed. That's set in stone.

"But I would think that some people in the Administration would pause and wonder. There must be a question about how long and how stringent the new limits will be."

# US companies push joint plan for HDTV

**By Louise Kehoe** in San Francisco

US ELECTRONICS companies will present their plan for a national collaborative high definition television (HDTV) development project to Congress today.

The industry's eagerly-awaited report, prepared by the Boston Consulting Group, is expected to outline a plan under which industry and government will share the cost of developing a new generation of television sets and broadcast equipment. The HDTV market is expected to grow to about $40bn by the late 1990s.

Thirty six US companies, including some of the largest US computer, semiconductor and electronics equipment manufacturers, have been involved in drafting the report.

Proponents of the plan say the US is behind Japan and Europe in HDTV development and that only through a co-ordinated research plan will the US have a chance of catching up.

The industry is expected to ask for direct government funding of up to $100m a year, to be matched by industry investments. Some of the funding is expected to come from the Defense Research Projects Agency which has already issued requests for proposals for two HDTV related projects with funding of up to $30m.

The plan will provide incentives for US companies to enter a field that carries high risks and appears to have little short-term opportunity for profit.

One such incentive may be a reduction in capital gains tax for companies that become involved in the HDTV effort.

The goal of the industry plan is to rejuvenate the US consumer electronics industry. HDTV is also seen as a key "driver" of semiconductor and display technology that may have far broader applications in computers and military electronics.

Although HDTV development has become a high priority for the US Administration and has strong support from Congress, it remains uncertain whether the Government is willing to provide funds for the project.

"There is strong interest in Congress," says Ms Pat Hill Hubbard, vice president of the AEA, who has spearheaded the trade group's efforts. "The question is how deeply is the economic environment understood by the Administration."

Commerce Secretary Mr Robert Mosbacher has pledged to take a leading role in clearing the way for industry collaboration with any necessary changes in anti-trust law that would allow companies to collaborate in manufacturing HDTV equipment, as well as working together in the research and development stages of the proposed project.

The Administration's response to the industry's HDTV proposal may become a bellwether of its stand on US industrial competitiveness.

# Quebec mining group seeks acquisitions

CAMBIOR, a large Quebec-based gold mining group and columbium producer, has C$36m (US$30.5m) cash available to support an acquisition programme in north-western Quebec and in the western US, writes Robert Gibbens in Montreal.

Cambior will have production of about 190,000oz of gold from its existing north-western Quebec mines and from an Alaskan placer operation jointly owned with American Barrick. Its average cost of production this year will be C$310 an oz, slightly up on last year.

Mr Louis Gignac, president, said production should reach 260,000oz by 1991 based on Cambior's present properties. The biggest is the Doyon mine, jointly owned with Lac Minerals. In future higher mining costs at Doyon will be partly offset by a higher grade and lower milling costs.

Cambior has interests in gold properties in Virginia and a 50 per cent share in the Gold Cliff property in California.

The group earned C$4.7m or 20 cents a share in the first quarter, up 32 per cent from a year earlier.

## INTERNATIONAL CAPITAL MARKETS

# Bank of England wields the money market mop

**The health of the Government's finances have been putting a strain on the London inter-bank market. Simon Holberton examines the authorities' approach to the problem**

Operators in London's money market have been heard to wonder recently how long daily surpluses of cash will persist in their market. Last Friday the Bank of England indicated that the surpluses would be here for some time and it decided it had to do something about it.

From this Friday the Bank will increase the size of its weekly Treasury Bill tender from £100m to £300m. It also said it would consider issuing T-bills with maturities longer than 90-days.

Most important of all, the Bank's ability to sustain a desired level of interest rates, from the point of view of monetary policy, was seen to be at risk from the amount of liquidity sloshing around in the money market. Without the change in operations, the Bank's ability to relieve surpluses in the money market would eventually have proved impossible.

The "bill mountain" – the Bank's stock of negotiable instruments with which it could drain the market's cash surpluses – has become a molehill. By the end of April it had fallen to around £3bn.

This is far short of the peak in the Bank's holdings of bills achieved in July 1985, at the height of over-funding, when the bill mountain had a towering value of £17bn.

The money market is being swamped by cash coming from a variety of sources, but three stand out: large flows of cash into the market from the ebb and flow of government finances throughout the year; a change in the method of local government borrowing finance; and a continued reduction in the holdings of UK government bonds, or gilts, by the banks and building societies.

Since the early 1980s, local authorities have been encouraged by the Treasury to borrow not in their own name from the market but from the Public Works Loan Board, an entity managed by the Treasury. Local authorities borrowed nearly 90 per cent of their funds from the PWLB in 1987/88 compared with 65 per cent in 1983/84.

These borrowings have, in turn, been used to repay own name local authority debt, run down bank loans and increased bank deposits. The local authorities' bank deposits and short-term assets have risen from £68m in 1983 to £2.7bn in 1988, while over the same period the stock of bank loans has fallen from £5.8bn to £1.9bn.

The upshot of this trend has been more and more free liquidity in the market in search of a home.

Cash flowing into the market has also been a consequence of the policy of "unfunding" the surplus on the public sector borrowing requirement.

This rule requires the Bank to replace the same amount of cash the Government withdraws from the system by virtue of its Budget surplus; foreign exchange intervention (if it is in defence of sterling) and any other funds it raises by way of National Savings, certificates of tax deposit and T-bills.

The caveat here is that purchases of gilts by banks and building societies do count as "unfunding," while sales of gilts, to either the Bank or the non-monetary sector, count for nought or add to the Bank's buy-back requirement.

The latter occurred over the past 12 months; between March 1988 and March this year banks and building societies reduced their holdings of gilts by more than £4bn. The release of this cash compounded the problems the Bank faced in mopping up the excess liquidity created by the activities of the local authorities.

The problem is likely to grow this year as £12.5bn of gilts mature – the vast bulk of which will be held by banks and building societies – and will not be refinanced. The issue of more and more T-bills may improve the situation, but they, too, are held by investors outside the monetary sector (17 per cent of T-bills outstanding are held by industrial and commercial companies) and also need to be "unfunded."

## Deere in $500m ECP programme

DEERE AND CO, the US farm machinery manufacturer, and John Deere Capital Corp, its retail financing subsidiary, have mandated Credit Suisse First Boston to arrange a Eurocommercial paper (ECP) programme of up to $500m for both companies, writes Norma Cohen.

It is the first ECP programme for each concern. The programme contains a multi-currency option and notes will be issued with maturities of up to 183 days. Short-term securities of both companies are rated P-2 by Moody's.

## FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on May 8

| US DOLLAR STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

| DEUTSCHE MARK STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

| SWISS FRANC STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

| YEN STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

| OTHER STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

| FLOATING RATE NOTES | Spread | Bid | Offer | C.dte | C.cpn | C.yld |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

| CONVERTIBLE BONDS | Cnv. date | Cnv. price | Bid | Offer | Chg. day | Prem |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.



The prices over the past week were supplied by: Bankers Trust International; Kredietbank N.V.; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Bank Gesellschaft Berlin; Credit Suisse First Boston; Daiwa Europe; Nikko Securities; Merrill Lynch; Morgan Stanley International; Nomura International; Samuel Montagu & Co; Société Générale; S.G. Warburg Securities; Wood Gundy; [illegible]

## FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday, May 8, 1989. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

| COUNTRY | £ STG | US $ | D-MARK | YEN (X 100) |
|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Special Drawing Rights May 5 1989 United Kingdom £0.768234 United States $1.28756 Germany West D Mark 2.44289 Japan Yen [illegible]. European Currency Unit Rates May 8 1989 United Kingdom £0.654935 United States $1.09715 Germany West D Mark 2.08216 Japan Yen147.643

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate. Some data supplied by Bank of America, Economics Department, London Trading Centre. Enquiries: 01 634 4360/5. Monday, May 8, 1989



### NOTICE OF REDEMPTION

## HMC MORTGAGE NOTES 2 PLC

**Class A Mortgage Backed Floating Rate Notes Due February 2015**

NOTICE IS HEREBY GIVEN to the holders of the Class A Mortgage Backed Floating Rate Notes Due February 2015 (the "Class A Notes") of HMC Mortgage Notes 2 PLC (the "Issuer") that, pursuant to the Trust Deed dated 23rd February, 1988 (the "Trust Deed"), between the Issuer and The Law Debenture Trust Corporation p.l.c. as Trustee, and the Agency Agreement dated 23rd February, 1988 (the "Agency Agreement"), between the Issuer and Morgan Guaranty Trust Company of New York (the "Principal Paying Agent") and others, the Issuer has determined that in accordance with the Redemption provisions set out in the Terms and Conditions of the Class A Notes, Available Funds as defined in the Terms and Conditions in the amount of £7,000,000 will be utilized on 23rd May, 1989 (the "Redemption Date") to redeem a like amount of Class A Notes. The Class A Notes selected by drawing in lots of £100,000 for redemption on the Redemption Date at a redemption price (the "Redemption Price") equal to their principal amount, together with accrued interest thereon are as follows:

**OUTSTANDING CLASS A NOTES OF £100,000 EACH BEARING THE DISTINCTIVE SERIAL NUMBERS SET OUT BELOW**

**Bearer Notes**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1679 | 1835 | 1970 | 2152 | 2296 | 2470 | 2620 | 2764 | 2879 | 2995 |
| 1727 | 1852 | 1979 | 2164 | 2332 | 2479 | 2652 | 2779 | 2887 | 3011 |
| 1752 | 1870 | 1994 | 2170 | 2362 | 2514 | 2664 | 2795 | 2917 | 3036 |
| 1764 | 1879 | 2052 | 2193 | 2365 | 2539 | 2679 | 2809 | 2936 | 3064 |
| 1779 | 1915 | 2070 | 2253 | 2379 | 2564 | 2710 | 2812 | 2964 | 3079 |
| 1807 | 1944 | 2074 | 2270 | 2402 | 2579 | 2714 | 2852 | 2979 | 3101 |
| 1821 | 1962 | 2081 | 2283 | 2456 | 2601 | 2743 | 2864 | 2985 | 3136 |

The Class A Notes may be surrendered for redemption at the specified office of any of the Paying Agents, which are as follows:

Morgan Guaranty Trust Company of New York
PO Box 161
1 Angel Court
London EC2R 7AE

Morgan Guaranty Trust Company of New York
Avenue des Arts 35
B-1040 Brussels, Belgium

Banque Internationale a Luxembourg S.A.
2 Boulevard Royal
L-2953
Luxembourg

Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015
Attn: Corporate Trust Operations

In respect of Bearer Class A Notes, the Redemption Price will be paid upon presentation and surrender, on or after the Redemption Date, of such Notes together with all unmatured coupons and talons appertaining thereto. Such payment will be made (i) in sterling at the specified office of the Paying Agent in London or (ii) at any specified office of any Paying Agent listed above by sterling cheque drawn on, or at the option of the holder by transfer to a sterling account maintained by the payee with, a Town Clearing branch of a bank in London. On or after the Redemption Date interest shall cease to accrue on the Class A Notes which are the subject of this Notice of Redemption.

**HMC MORTGAGE NOTES 2 PLC**
*By:* MORGAN GUARANTY TRUST COMPANY OF NEW YORK, *as Principal Paying Agent*

Dated: 9th May, 1989

### NOTICE

Withholding of 20% of gross redemption proceeds of any payment made within the United States is required by the Interest and Dividend Tax Compliance Act of 1983 unless the paying agency has the correct taxpayer identification number (social security or employer identification number) or exemption certificate of the Payee. Please furnish a properly completed Form W-9 or exemption certificate or equivalent if presenting your Class A Notes to the paying agency's New York Office.

U.S. $250,000,000

**Crédit Lyonnais**

Subordinated Floating Rate Notes Due August 1997

| | |
|---|---|
| Interest Rate | 10¼% per annum |
| Interest Period | 8th May 1989<br>7th August 1989 |
| Interest Amount per U.S. $10,000 Note due 7th August 1989 | U.S. $259.10 |

**Credit Suisse First Boston Limited**
Reference Agent

**NEVI**

## A/S NEVI

DKK 600,000,000 Floating Rate Notes due 1993

Tranche B of DKK 300,000,000

In accordance with the provisions of the Notes, notice is hereby given that, for the three months period, 9th May, 1989 to 9th August, 1989, the Notes will bear interest at the rate of 9.25 per cent. per annum. Coupon No. 11 will therefore be payable on 9th August, 1989 at DKK5,909.72 per coupon for Notes of DKK 250,000 nominal.

Agent Bank
**KANSALLIS-OSAKE-PANKKI**
London Branch

Series 071

**US$42,000,000**
Short-term Guaranteed Notes issued in Series under a US$280,000,000 Note Purchase Facility by

**Mount Isa Mines (Coal Finance) Limited**

Notice is hereby given that the above Series of Notes issued under a production Loan and Credit Agreement dated 30th March, 1983, carry an Interest Rate of $9\frac{15}{16}$% per annum. The Issue Date of the above Series of Notes is 9th May, 1989, and the Maturity Date will be 9th November, 1989. The Euro-clear reference number for this Series is 49185 and the CEDEL reference number is 927821.

**Manufacturers Hanover Limited**
Issue Agent
(a member of The Securities Association)

*9th May, 1989*

# INTERNATIONAL CAPITAL MARKETS

# New-issue activity climbs back

By Andrew Freeman

EUROMARKETS spluttered into first gear after idling in neutral during last week's holiday period. New-issue activity returned to normal levels, but traders commmented that secondary market business was extremely thin.

Several houses were bidding at the end of last week for the Ecu125m deal for IBM International Finance which was brought yesterday by Credit Suisse First Boston (CSFB). The three-year bonds came with an 8¾ per cent coupon and were priced at 101½.

The issue was well received, and was quoted towards the end of trading by CSFB at less 1.35 bid, a discount inside underwriting commissions of 1⅞ per cent. The yield at less full fees was 8.70 per cent. Existing IBM secondary bonds were yielding around 8.85 per cent after prices were marked down in anticipation of yesterday's issue.

It is understood the proceeds were swapped into sterling, French francs and guilders, although CSFB would not comment. There was speculation that Banque National de Paris, which was a co-lead manager, did the swap to achieve sub-Libor funds for the borrower.

The arrival of the IBM deal had a detrimental effect on the syndication of Friday's Ecu200m five-year issue for GECC, which new issue traders said looked very expensive by comparison. Several houses that were offered co-management positions declined, and the GECC bonds slipped to less 2 bid, outside fees.

Bankers Trust International was the lead manager of a $170m one-year deal for the Bank of Montreal. The bonds carried a 10 per cent coupon and were priced at 101 to give a yield similar to the 12⅛ per cent currently available on one-year bank deposit funds.

The lead manager placed bonds in Tokyo and the Far East, and was quoting the paper on fees at less 1 bid. A small syndicate of 10 co-lead managers was formed amid comment that the pricing gave little away. The issue was swap-driven by what a Bankers Trust official described as a "complicated structure." He declined to elaborate.

Chase Investment Bank brought a $50m dual currency deal for Fiat Finance & Trade. The one-year bonds were priced at 100¾ per cent and carried a 15 per cent coupon, well above the current 10 per cent level for straight dollar issues.

Fiat has an option to redeem principal and interest in either dollars or Lire at a fixed exchange rate. Syndicate officials praised the realistic pick-up offered to investors in return for this option. The paper was quoted at less 0.95 bid, inside underwriting fees of 1 per cent. Issue proceeds were swapped into floating-rate US dollars.

A $100m three-year deal for General Reinsurance was brought by Goldman Sachs International with a 9¾ per cent coupon and a launch price of 101.10 giving a spread over outstanding Treasuries of 55 basis points.

The deal was well received, but was quoted by the lead manager outside fees at less 1.45 bid after the Treasury market fell. "We marked it down to keep the spread the same," said a Goldman official.

Three Japanese equity warrant deals were launched against the buoyant background of record levels on the Nikkei Index. All the issues went to premiums over their par issue price, with Nankei Electric Railway quoted by Daiwa at 102¼ bid, Tokyo Nissan bid at 100% by Yamaichi and Onward Kashiyama quoted by Nomura at 102 bid.

In Switzerland yesterday, market sentiment was set back by renewed fears of rising interest rates and by the Swiss Government's postponement of its planned issue of a SFr250m bond. There were no new issues.

## INTERNATIONAL BONDS

### NEW INTERNATIONAL BOND ISSUES

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees | Book runner |
|---|---|---|---|---|---|---|
| US DOLLARS | | | | | | |
| Tokyo Nissan Auto♦ | 100 | (4¼) | 100 | 1993 | 1⅞/1⅛ | Yamaichi Int. |
| Nankai El. Rail.♦ | 140 | (4¼) | 100 | 1993 | 1⅞/1⅛ | Daiwa Europe |
| Onward Kashiyama♦ | 200 | (4¼) | 100 | 1993 | 1⅞/1⅛ | Nomura Int. |
| Bk.of Montreal♦ | 170 | 10 | 101 | 1990 | ⅝/⅜ | Bankers Trust Int. |
| General Re Corp.♦ | 100 | 9¾ | 101.10 | 1992 | 1⅞/1¼ | Goldman Sachs Int. |
| Fiat Fin.&Trade♦(a) | 50 | 15 | 100¾ | 1990 | ⅝/⅜ | Chase Inv. Bk. |
| AUSTRALIAN DOLLARS | | | | | | |
| Royal Bank of Canada♦ | 60 | 15½ | 102 | 1992 | 1½ | Hambros Bank |
| ECUs | | | | | | |
| IBM Int. Fin.♦ | 125 | 8¾ | 101.50 | 1992 | 1⅞/1¼ | CSFB |
| LIRE | | | | | | |
| Credioptr♦(b) | 200bn | (b) | 100 | 1997 | n/a | Ist.Bancario San Paolo |

♦With equity warrants. ♦Final terms. a)Issuer has option to redeem principal and coupon in Lire at rate of Lire1,373 to US$. b)Coupon refixed every six months at arithmetic mean between LIBID and annual net yield of ICM bonds as supplied by Bank of Italy.

# Liffe to revise long gilt future regulations

By Katharine Campbell

THE LONDON International Financial Futures Exchange yesterday announced it was revising the specifications of the languishing long gilt-edged securities future, effectively shortening the maturity of the cash stocks that can be delivered against futures positions when the contract expires. The market's reaction was less than enthusiastic.

The dwindling supply of gilts as a result of the UK Government's funding policies has severely depressed turnover in the long gilt future, once the exchange's lead contract. Shortage of stock had already led to some pricing anomalies and serious concerns – shared by the Bank of England – had arisen that a dearth of stock could lead to market manipulation.

Instead of restricting deliverable stock to gilts with a 15-25 year maturity, Liffe now proposes to allow stock with redemption dates from 2003 to 2009 to be delivered at settlement. This will apply from the December 1989 contract, which will be reintroduced in a few weeks. The new rules mean that a total of £17.5bn worth of stock will be deliverable against the December contract compared with £8.6bn if the exchange had done nothing.

The new format permits liquid stocks such as the benchmark treasury 2003-2007, the treasury 2003-2005 and the treasury 2004-2008 to become eligible for delivery again.

At the same time, in an unusual move, the Bank of England publicly affirmed its commitment to "ensure adequate amounts of the deliverable stock remain available to the market."

Traders interpreted this as an important vote of confidence in the long gilt future as an integral part of the smooth functioning of the gilt market.

However, critics said the exchange should have acted earlier. A review by Liffe in December had yielded no change. One observer explained the exchange had postponed the revision because of a market disturbance.

# US Treasuries drift lower prior to refunding auction

By Janet Bush in New York and Katharine Campbell in London

US TREASURY bonds drifted lower yesterday morning despite a surge in the dollar above DM1.90 as traders preferred caution in advance of the first quarterly refunding auction today and reacted to revived inflation worries.

At midsession, prices were quoted as much as ⅜ point lower at the long end of the market. The Treasury's benchmark long bond was quoted ⅜ point lower for a yield of 8.99 per cent.

The US currency jumped to DM1.9070 by midsession, finally breaking above what is widely regarded as the Group of Seven's desired upper limit against the West German D-Mark. Despite the surge, there appeared to be no concerted central bank intervention to push the dollar back below DM1.90.

The bond market was also showing a residual reaction to last Friday's employment release. Although the rise in the non-farm payroll was about half what markets had expected in April, the figures suggested considerable upward pressure on wages. Hourly wages rose 7 cents in April compared with a 2 cent rise in March and a 1 cent rise in February.

Concerns about wage pressures were underscored by news of the settlement between Bethlehem Steel and the United Steelworkers. Over the next four years, steelworkers will receive a pay rise of as much as 20 per cent.

### BENCHMARK GOVERNMENT BONDS

| | | Coupon | Red Date | Price | Change | Yield | Week ago | Month ago |
|---|---|---|---|---|---|---|---|---|
| UK GILTS | | 13.500 | 9/92 | 107-00 | +1/32 | 10.95 | 10.95 | 11.04 |
| | | 8.750 | 1/98 | 97-08 | +1/32 | 10.24 | 10.24 | 10.31 |
| | | 9.000 | 10/08 | 97-21 | +3/32 | 9.26 | 9.26 | 9.37 |
| US TREASURY * | | 8.875 | 2/99 | 99-01 | -4/32 | 9.02 | 9.04 | 9.24 |
| | | 8.875 | 2/19 | 99-30 | +6/32 | 8.88 | 8.91 | 9.09 |
| JAPAN | No 111 | 4.800 | 6/98 | 95.3152 | -0.116 | 5.36 | 5.32 | 5.22 |
| | No 2 | 5.700 | 3/07 | 105.8073 | - | 5.07 | 5.05 | 5.05 |
| GERMANY | | 6.375 | 11/98 | 95.9000 | -0.300 | 6.97 | 6.89 | 6.87 |
| FRANCE | BTAN | 8.000 | 1/94 | 96.7950 | +0.001 | 8.84 | 8.85 | 8.97 |
| | OAT | 8.125 | 6/99 | 95.9700 | - | 8.74 | 8.74 | 8.82 |
| CANADA * | | 10.250 | 12/98 | 101.7500 | -0.125 | 9.96 | 10.08 | 10.48 |
| NETHERLANDS | | 6.7500 | 10/98 | 93.7750 | -0.200 | 7.22 | 7.12 | 7.06 |
| AUSTRALIA | | 12.000 | 7/99 | 92.5394 | +0.001 | 13.34 | 13.34 | 13.72 |

London closing, *denotes New York morning session. Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

## GOVERNMENT BONDS

TRADING in UK gilt-edged securities was illiquid and reaction to poor news on the producer price front was surprisingly muted. Indeed, the market ended the day a shade firmer.

Confirmation that March retail sales volumes remained unchanged on February was apparently given more weight in terms of encouraging news of slower consumer demand than an unexpectedly high 1.6 per cent increase in input prices in April, which of course has worrying implications for the inflationary outlook.

The Liffe long gilt contract closed at 95-24, ⅛ of a point firmer than Friday.

THE GERMAN market was depressed by terms of a new, richly priced federal bond, as well as by the firm tone to the dollar and an increased March current account surplus.

The next federal bond, which again bears a 7 per cent coupon, was priced more expensively than anticipated at 101.00 to yield 6.86 per cent.

The Government is releasing DM3.2bn to the market and retaining DM800m for regulation.

LONDON BOND traders were expressing considerable interest in the opening of the Norwegian bond market today, although they had yet to establish whether withholding tax would be payable and, if so, at what level. Domestic settlement arrangements also remained something of a mystery, they said.

However, the prospect of the Swedish market also opening later this year means that the Nordic markets in general will become a new focus of interest for international fund managers.

# Dollar share of cross-border lending falls

By Stephen Fidler, Euromarkets Correspondent

NEW FIGURES charting the decline of the dollar's role in international finance have been released by the Bank for International Settlements (BIS), the Basle-based institution that groups the world's main central banks.

Between the end of 1983 and 1988, the US currency's share of cross-border lending of banks in industrial countries contracted from 72 per cent to 53 per cent.

Figures published today detail lending by banks in industrial countries to entities outside the BIS reporting area, which incorporates the industrial countries along with the main offshore banking centres.

The figures show that between 1983 and 1988, the value of all non-dollar claims on countries outside the BIS area rose by $126bn to $230bn in current dollar terms. Exchange rate effects and volume increases had equal impact.

The share of the US dollar in all claims declined to 57.8 per cent from 75.7 per cent, while on the liabilities side the dollar fared better, declining to 60.6 per cent from 72.0 per cent. The main beneficiary was the yen, with claims rising to 10.7 per cent from 3.4 per cent of the total and liabilities to 7.4 per cent from 4.1 per cent. The share of claims in D-Marks rose to 10.1 per cent from 6.4 per cent and liabilities to 10.7 per cent from 9.3 per cent.

On balance, all new lending to countries outside the BIS area between 1983 and 1988 was in currencies other than the dollar. However, the dollar accounted for 41 per cent of the increase in liabilities to outside-area countries.

The BIS cites five reasons why non-dollar positions have grown considerably:

- Financial deregulation which has increased scope for the international use of certain currencies.
- The growing importance of non-US banking institutions and decline of US banks.
- Lower interest rates have boosted borrowing demand in non-dollar currencies.
- The growth of the countries around the Pacific Rim, in which the yen plays an important role.
- Rescheduling and debt reduction operations of heavily-indebted countries: some non-US banks have switched Third World loans out of the dollar into domestic currencies and most debt reduction operations have focused on US dollar assets.

It suggests that the greater resilience of the dollar on the liabilities side reflects the favour that official depositors continued to confer on it.

# Cedel share issue to raise up to $20m

By Stephen Fidler, Euromarkets Correspondent

CEDEL, the Luxembourg-based international clearing house for bonds and equities, plans to raise $15m to $20m towards the end of this year through an issue of new shares.

Its annual meeting agreed to a doubling of authorised capital from a nominal $3m. The prime reason for the share issue, to be offered initially through a rights issue, is to finance the agency's move into a new headquarters building in Luxembourg.

Cedel, owned by 109 – mainly bank – shareholders, also has plans for further, unspecified, expansion of activities. It will continue to use its existing offices as a data processing centre.

Its chairman, Mr Edmund Israel, said the capital increase would help Cedel meet the recommendations of a report by the influential Group of 30 earlier this year "for adequate equity for clearing houses in order to minimise risks."

# LONDON MARKET STATISTICS

## FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

| | EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section) | Mon May 8 1989 Index No. | Day's Change % | Est. Earnings Yield% (Max.) | Gross Div. Yield% (Act at (25%) | Est. P/E Ratio (Net) | xd adj. 1989 to date | Fri May 5 Index No. | Thu May 4 Index No. | Wed May 3 Index No. | Year ago (approx) Index No. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | CAPITAL GOODS (207) | 961.13 | -0.7 | 10.51 | 4.03 | 11.69 | 11.91 | 967.63 | 960.85 | 951.42 | 765.55 |
| 2 | Building Materials (29) | 1206.11 | -0.8 | 11.81 | 4.24 | 10.35 | 17.57 | 1215.59 | 1208.71 | 1188.40 | 999.95 |
| 3 | Contracting, Construction (38) | 1717.99 | -0.2 | 13.00 | 4.88 | 10.07 | 28.37 | 1721.63 | 1719.22 | 1704.83 | 1585.26 |
| 4 | Electricals (10) | 2870.93 | -0.3 | 8.25 | 4.22 | 14.78 | 25.01 | 2878.74 | 2849.95 | 2887.69 | 2856.82 |
| 5 | Electronics (30) | 2206.44 | -1.4 | 8.61 | 3.83 | 15.86 | 13.93 | 2238.53 | 2219.29 | 2183.60 | 1604.92 |
| 6 | Mechanical Engineering (54) | 513.03 | -0.3 | 10.24 | 3.99 | 11.98 | 7.37 | 514.59 | 512.15 | 508.96 | 394.39 |
| 8 | Metals and Metal Forming (7) | 541.39 | -0.3 | 14.17 | 5.52 | 7.98 | 0.43 | 543.16 | 541.60 | 539.22 | 454.95 |
| 9 | Motors (17) | 317.09 | +0.1 | 11.64 | 4.79 | 10.85 | 6.44 | 316.73 | 316.58 | 314.94 | 279.36 |
| 10 | Other Industrial Materials (22) | 1603.93 | -0.7 | 9.10 | 4.21 | 13.10 | 24.98 | 1615.76 | 1602.83 | 1590.09 | 1259.23 |
| 21 | CONSUMER GROUP (185) | 1206.59 | -0.8 | 8.94 | 3.64 | 14.03 | 9.41 | 1215.79 | 1208.51 | 1201.23 | 1064.53 |
| 22 | Brewers and Distillers (22) | 1334.71 | -0.9 | 9.68 | 3.43 | 13.07 | 9.92 | 1346.60 | 1333.96 | 1326.23 | 1096.20 |
| 25 | Food Manufacturing (20) | 1048.23 | +0.2 | 9.64 | 3.95 | 13.06 | 11.32 | 1045.69 | 1038.59 | 1035.27 | 984.23 |
| 26 | Food Retailing (15) | 2184.19 | +0.5 | 8.49 | 3.31 | 15.49 | 16.14 | 2172.82 | 2172.23 | 2167.84 | 2010.48 |
| 27 | Health and Household (14) | 2257.42 | -1.3 | 6.30 | 2.59 | 18.10 | 14.41 | 2288.00 | 2287.07 | 2280.09 | 1791.64 |
| 29 | Leisure (33) | 1638.89 | -1.1 | 7.55 | 3.31 | 16.62 | 15.53 | 1656.42 | 1620.86 | 1606.36 | 1299.47 |
| 31 | Packaging & Paper (15) | 577.53 | +0.4 | 10.21 | 4.21 | 12.19 | 6.99 | 575.12 | 572.36 | 570.36 | 499.84 |
| 32 | Publishing & Printing (18) | 3568.50 | -0.3 | 9.20 | 4.53 | 13.63 | 43.67 | 3578.65 | 3575.46 | 3548.60 | 3302.11 |
| 34 | Stores (33) | 781.27 | -1.7 | 11.36 | 4.58 | 11.52 | 1.98 | 794.92 | 792.56 | 781.82 | 819.91 |
| 35 | Textiles (15) | 531.35 | -1.6 | 11.72 | 5.34 | 10.36 | 6.31 | 539.89 | 534.51 | 532.46 | 600.36 |
| 40 | OTHER GROUPS (95) | 1081.50 | -0.3 | 10.00 | 4.12 | 12.16 | 9.05 | 1084.25 | 1079.55 | 1068.60 | 871.50 |
| 41 | Agencies (18) | 1326.28 | -0.2 | 6.80 | 2.47 | 18.45 | 14.30 | 1329.47 | 1308.80 | 1288.72 | 1130.56 |
| 42 | Chemicals (22) | 1231.30 | -0.3 | 11.35 | 4.79 | 10.45 | 22.54 | 1235.00 | 1226.36 | 1222.66 | 1085.61 |
| 43 | Conglomerates (12) | 1573.03 | -0.5 | 9.89 | 4.44 | 11.79 | 5.37 | 1580.94 | 1577.96 | 1565.85 | 1183.01 |
| 45 | Transport (13) | 2432.11 | +0.2 | 8.15 | 3.54 | 15.92 | 20.16 | 2426.13 | 2417.53 | 2409.82 | 1896.14 |
| 47 | Telephone Networks (2) | 1111.17 | -0.4 | 10.57 | 4.23 | 12.31 | 0.00 | 1115.91 | 1102.69 | 1084.79 | 952.82 |
| 48 | Miscellaneous (28) | 1460.26 | -0.1 | 10.66 | 4.05 | 10.66 | 21.65 | 1461.20 | 1478.20 | 1457.54 | 1120.94 |
| 49 | INDUSTRIAL GROUP (487) | 1129.22 | -0.6 | 9.68 | 3.88 | 12.76 | 10.45 | 1135.94 | 1129.34 | 1120.02 | 945.89 |
| 51 | Oil & Gas (13) | 1998.37 | -0.4 | 9.95 | 5.56 | 12.91 | 41.99 | 2005.96 | 1988.75 | 2009.30 | 1825.80 |
| 59 | 500 SHARE INDEX (500) | 1203.24 | -0.6 | 9.72 | 4.10 | 12.78 | 13.02 | 1210.08 | 1202.62 | 1195.53 | 1019.49 |
| 61 | FINANCIAL GROUP (123) | 746.04 | -0.2 | – | 5.17 | – | 14.74 | 747.64 | 743.88 | 737.28 | 672.08 |
| 62 | Banks (8) | 736.53 | -0.2 | 24.28 | 6.50 | 5.41 | 21.71 | 737.77 | 731.74 | 726.85 | 629.59 |
| 65 | Insurance (Life) (8) | 1069.81 | -0.5 | – | 5.58 | – | 29.86 | 1074.96 | 1071.34 | 1066.07 | 987.58 |
| 66 | Insurance (Composite) (7) | 595.05 | ...... | – | 5.76 | – | 13.65 | 594.82 | 596.38 | 586.74 | 533.53 |
| 67 | Insurance (Brokers) (7) | 956.44 | +0.9 | 8.37 | 6.59 | 15.99 | 27.06 | 947.66 | 953.69 | 943.39 | 917.02 |
| 68 | Merchant Banks (11) | 334.20 | +0.6 | – | 4.51 | – | 3.70 | 332.04 | 331.77 | 331.60 | 343.15 |
| 69 | Property (52) | 1327.72 | -0.7 | 5.90 | 2.72 | 21.52 | 6.77 | 1337.59 | 1325.80 | 1310.35 | 1160.09 |
| 70 | Other Financial (30) | 373.27 | +0.3 | 9.86 | 5.62 | 12.82 | 4.03 | 372.17 | 370.68 | 369.34 | 384.92 |
| 71 | Investment Trusts (72) | 1138.97 | +0.1 | – | 2.78 | – | 8.37 | 1137.35 | 1129.46 | 1119.72 | 874.29 |
| 81 | Mining Finance (2) | 660.86 | ...... | 9.39 | 3.85 | 11.86 | 10.45 | 660.86 | 658.91 | 663.65 | 471.24 |
| 91 | Overseas Traders (8) | 1361.53 | -1.2 | 10.26 | 5.17 | 11.26 | 30.41 | 1377.51 | 1373.16 | 1361.63 | 1043.25 |
| 99 | ALL-SHARE INDEX (705) | 1091.94 | -0.5 | – | 4.22 | – | 13.35 | 1097.29 | 1090.77 | 1083.99 | 927.48 |

| | Index No. | Day's Change | Day's High (a) | Day's Low (b) | May 5 | May 4 | May 3 | May 2 | Apr 28 | Year ago |
|---|---|---|---|---|---|---|---|---|---|---|
| FT-SE 100 SHARE INDEX‡ | 2119.6 | -13.2 | 2132.5 | 2119.6 | 2132.8 | 2119.8 | 2105.7 | 2103.1 | 2118.8 | 1794.9 |

## FIXED INTEREST

| | PRICE INDICES | Mon May 8 | Day's change % | Fri May 5 | xd adj. today | xd adj. 1989 to date |
|---|---|---|---|---|---|---|
| | British Government | | | | | |
| 1 | 5 years | 118.11 | +0.16 | 118.14 | 0.22 | 4.34 |
| 2 | 5-15 years | 133.63 | +0.14 | 133.44 | – | 4.62 |
| 3 | Over 15 years | 145.06 | +0.11 | 145.49 | 0.59 | 5.92 |
| 4 | Irredeemables | 168.08 | -0.14 | 168.31 | – | 6.10 |
| 5 | All stocks | 131.34 | +0.14 | 131.30 | 0.34 | 4.75 |
| | Index-Linked | | | | | |
| 6 | 5 years | 134.02 | +0.06 | 133.93 | – | 1.36 |
| 7 | Over 5 years | 133.67 | +0.11 | 133.52 | – | 1.28 |
| 8 | All stocks | 133.57 | +0.11 | 133.43 | – | 1.27 |
| 9 | Debentures & Loans | 115.15 | +0.25 | 115.37 | 0.51 | 3.80 |
| 10 | Preference | 88.96 | +0.03 | 88.97 | 0.04 | 2.05 |

| | AVERAGE GROSS REDEMPTION YIELDS | | Mon May 8 | Fri May 5 | Year ago (approx.) |
|---|---|---|---|---|---|
| | British Government | | | | |
| 1 | Low Coupons | 5 years | 9.61 | 9.60 | 8.83 |
| 2 | | 15 years | 9.21 | 9.20 | 9.19 |
| 3 | | 25 years | 9.04 | 9.03 | 9.06 |
| 4 | Medium Coupons | 5 years | 10.65 | 10.70 | 9.27 |
| 5 | | 15 years | 9.64 | 9.64 | 9.41 |
| 6 | | 25 years | 9.20 | 9.20 | 9.23 |
| 7 | High Coupons | 5 years | 10.76 | 10.81 | 9.36 |
| 8 | | 15 years | 9.85 | 9.86 | 9.55 |
| 9 | | 25 years | 9.39 | 9.38 | 9.28 |
| 10 | Irredeemables | † | 9.03 | 9.01 | 9.07 |
| | Index-Linked | | | | |
| 11 | Inflation rate 5% | 5yrs. | 3.51 | 3.53 | 2.55 |
| 12 | Inflation rate 5% | Over 5 yrs. | 3.57 | 3.58 | 3.74 |
| 13 | Inflation rate 10% | 5 yrs. | 2.60 | 2.61 | 1.64 |
| 14 | Inflation rate 10% | Over 5 yrs. | 3.41 | 3.41 | 3.59 |
| 15 | Debs & Loans | 5 years | 12.10 | 12.23 | 10.29 |
| 16 | | 15 years | 11.50 | 11.45 | 10.62 |
| 17 | | 25 years | 11.06 | 11.08 | 10.68 |
| 18 | Preference | § | 10.18 | 10.18 | 9.73 |

‡Opening index 2132 4; 10 am 2128.2; 11 am 2130.9; Noon 2131.5; 1 pm 2130.3; 2 pm 2129.1; 3 pm 2128.5; 4 pm 2128.7; 4.05 pm 2128.4 (a) 9.10am (b) 4.52pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p.

## RISES AND FALLS YESTERDAY

| | Rises | Falls | Same |
|---|---|---|---|
| British Funds | 93 | 10 | 4 |
| Corporations, Dominion and Foreign Bonds | 1 | 3 | 40 |
| Industrials | 438 | 388 | 748 |
| Financial and Properties | 203 | 136 | 319 |
| Oils | 22 | 31 | 44 |
| Plantations | 2 | 1 | 9 |
| Mines | 41 | 39 | 98 |
| Others | 82 | 58 | 115 |
| Totals | 882 | 666 | 1,377 |

## LONDON RECENT ISSUES

### EQUITIES

| Issue Price | Amount Paid up | Latest Renunc. date | 1989 High | 1989 Low | Stock | Closing Price | + or - | Net Div. | Times Cov'd | Gross Yield | P.E. Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|
| §57 | F.P. | - | 71 | 60 | Amberley Group 2½p | 63 | | b1.5 | 3.4 | 3.2 | 11.6 |
| §100 | F.P. | - | 120 | 108 | Boxmore Intl. 10p | 120 | +5 | u5.2 | 1.9 | 5.8 | 11.6 |
| † | F.P. | - | 35 | 29 | CCS Group 20p | 30 | | L0.45 | 1.6 | 2.0 | 42.5 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### FIXED INTEREST STOCKS

| Issue Price £ | Amount Paid up | Latest Renunc. Date | 1989 High | 1989 Low | Stock | Closing Price £ | + or - |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### RIGHTS OFFERS

| Issue Price p | Amount Paid up | Latest Renunc. Date | 1989 High | 1989 Low | Stock | Closing Price p | + or - |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

[illegible]

## TRADITIONAL OPTIONS

- First Dealings Apr 24
- Last Dealings May 12
- Last Declarations Jul 27
- For settlement Aug 7

For rate indications see end of London Share Service

Calls in Laird Group, Rex Williams, Tusker, Suis, Tamaris, Butte Mining, THF, Dixons, DRG, Cresta Hldgs, Regentcrest, Eagle Trust, Control Secs, Mount Charlotte, Century Oil, Citywide, Atlantic Res, Wats J. (Cardiff), TR Energy, Dewey Warren P/C in Tamaris, Tusker.

## LONDON TRADED OPTIONS

| Option | CALLS Jul | Oct | Jan | PUTS Jul | Oct | Jan |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

| Option | CALLS May | Aug | Nov | PUTS May | Aug | Nov |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

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## UK COMPANY NEWS

# Sears warns of difficult year after rise to £273m

**By Nikki Tait**

SEARS, *the Selfridges* and British Shoe retailing group, yesterday warned that 1989/90 was expected to be a difficult year, with high mortgage rates depressing customer spending and cost increases creating margin pressure.

The warning was sounded as the group unveiled 1988/9 profits up from £245.7m to £272.8m before tax. Sales in the 12 months to the end of January were £2.71bn, against £2.36bn, and earnings per share increased by 13 per cent to 12.3p. The total dividend is 5.1p (4.6p), after a proposed final of 3.65p.

Yesterday, the shares eased 5p to 119p.

*The figures included the first* full-year contribution from Freemans, the mail order business which Sears acquired after a £477m bid battle in January 1988. Freemans added £430.3m to turnover and contributed a trading profit of £26.6m, well below the £32.4m made in 1986/7, the year before *it changed ownership.*

And the profits failed by a substantial margin to cover the financing costs of the purchase. Sears said that if Freemans had not been part of the group, pre-tax profits would have shown an increase of about 20 per cent. It estimated that the postal strike cost Free*mans between £4m and £5m* last year.

Rationalisation of the Freemans business was continuing. By the end of June, there will have been about 700 redundancies, out of the 5,500 pre-acquisition workforce, and there is

Michael Pickard: chief executive of Sears

one further significant office move to come.

Sears has started to use Freemans to bring out "specialogues", marketing other subsidiaries' products, and five Sears brands are included in the present Freemans catalogue.

*Interest* charges were £36.2m (£1.7m), reflecting the Freemans acquisition.

The increase in trading profit from £232.1m to £278.5m was mainly due to a strong advance by the housebuilding and property division. Trading profits were up from £28.8m to £53.6m, with housebuilding contributing some £33m.

The company said that higher interest rates were hitting housebuilding in the current year, with volumes so far down by about one-third. But it hoped to hold the division's contribution overall as more *property profits* worked through.

On the shoe retailing side, which includes Freeman Hardy Willis, Dolcis and Lilley & Skinner, trading profits were static at £106.5m (£105.9m), on sales up at £713mm (£690m), but the group said turnover fell away in the second half.

The stores, fashion and home shopping division, including Freemans, turned in trading profits of £97.6m (£80.9m) on sales of £1.18bn (£677.5m), revealing an underlying fall once the mail order profits are stripped out.

However, Sears maintained that the fashion chains, Miss Selfridge and Wallis, had seen an *improvement in trading* more recently, with some customers shopping down and others apparently less affected by the mortgage rate squeeze. It added that tourist spending appeared to be fairly buoyant in the current year.

Discontinued operations, including the recently-sold Wil*liam Hill chain of betting* shops, contributed £20.8m (£16.5m) on sales of £667.2m (£906.1m). There was an extraordinary credit of £312.3m (£47.1m debit) resulting largely from the sale of William Hill.

Gearing by year-end, and following the William Hill deal, was down to 10.5 per cent. *House of Fraser holds a 10.3* per cent interest in Sears, but the company, frequently subject to bid rumours, said that it had seen no unusual movements in its share register recently.

See Lex

# Laird hopes to sell train maker this month

**By Andrew Hill**

LAIRD GROUP, sealing systems and engineering company, said yesterday it hoped to announce the sale of Metro-Cammell, its train-making subsidiary, by the end of the month.

Speaking at the company's AGM, Mr John Gardiner, Laird's chairman, said the sale was "in the final stages of negotiation".

Three companies are on the shortlist, but Mr Gardiner refused to comment on the identity of possible buyers.

Recent speculation has thrown up the names of GEC *Alsthom – the power genera*tion joint venture between the UK's General Electric Company and France's Compagnie Générale d'Electricité – and Ferrovie dello Stato, the Italian state railways group.

Other manufacturers, such as FKI Babcock, Hawker Siddeley, and Northern Engineer*ing Industries, could also be* interested.

Laird also intends to sell Metro-Cammell Weymann, which makes the Metrocab, rival to the traditional London taxi, and buses. MCW lost £18.1m last year, dragging down Laird's 1988 profits and pushing the group into the red *at the attributable level with* an extraordinary charge of £16.5m below the line.

Mr Gardiner said yesterday that discussions on the sale would probably be completed in the next month or so.

He said a number of companies had made offers for the three separate parts of MCW – *double-decker buses*, the medium sized "midi-buses", and taxis. None had wanted to buy the division as one business.

# High risk route may end in court

## Steven Butler on the feud over Texas Eastern's North Sea assets

ENTERPRISE OIL, British Gas, and Amerada Hess are set to face each *other precisely where none of* them wishes to be - in court. They are feuding over which of them has rights to buy some or all of Texas Eastern North Sea, the UK oil exploration and production subsidiary of the US gas transmission company.

Enterprise originally agreed to buy the company for $961m as part of a $1.4bn deal, but British Gas and Amerada Hess are trying to pre-empt the purchase, pushing Enterprise at least partly aside and buy it themselves.

A court ruling, at the request of Texas Eastern which is anxious to realise proceeds of the sale quickly, would settle the feud. But this is a high risk avenue for all three because the outcome is unpredictable. Attempts to negotiate a settlement are likely to continue, even though the negotiating positions are still miles apart.

The legal issues are complicated and each of the companies could lose all claim on the *assets. An even less attractive* outcome would arise if all three were forced to accept minority stakes, raising the possibility of protracted disagreements over management and eventual division of the assets, of which last week's abortive negotiations might only be a preview.

*In the meantime, Texas East*ern North Sea is floundering for direction, and demoralised, with nearly $1bn of oil assets under its management. The fate of the company would have important implications for all its staff.

In a strict commercial sense none of the companies has anything at stake but a lost opportunity of buying assets at what is evidently an attractive price. More broadly, however, the episode is a reflection on each company's corporate skills and the assets are important in different ways to each company's strategy.

On March 1st, Enterprise agreed with Texas Eastern to buy all its oil and gas subsidiaries for a total of $1.4bn, valuing the the UK part of the deal at $961m. Enterprise simultaneously announced a rights issue to fund the deal, but called the issue in two tranches, with the second tranche variable in amount to allow for the possibility that Enterprise would lose some of the deal should Texas Eastern's partners exercise pre-emption rights.

On April 28, British Gas and Amerada Hess exercised pre-emption rights while Amoco, the fourth member of the group, let the opportunity pass. The rights go back to a 1965 agreement between Texas Eastern and its three partners and in this case pertain to shares in the UK subsidiary, not to individual assets. Although Enterprise disputes the rights, it considers itself party to any rights that may *exist because it received the oil* and gas assets of British Gas before the utility was privatised in 1986.

As to who in the end has claim over how much of the company, the best that can be said is that lawyers disagree. Even if the rights are found to exist in principle, the 1965 agreement the does not spell out how they would be exercised after 24 years of evolution in North Sea licence positions, although Amerada Hess and British Gas say they have agreed on this point.

It was never made clear whether Enterprise took over British Gas's rights when it took over the British Gas oil assets. That asset transfer, which appeared to involve a substantial transfer of ownership, never resulted in invitations for pre-emption. A court will have to decide whether this invalidated or altered the rights, or the way they would be exercised.

It is unfortunate for Enterprise that the situation has arisen and there was criticism by some analysts that Enterprise could have structured the deal so as to minimise the possibility of pre-emption. Some say, for example, that Enterprise undervalued the UK part of the package thus making it more attractive to pre-empt.

By structuring the rights issue to take account of the possibility of pre-emption, Enterprise also may have implicitly recognised the validity of the rights, although it denies this.

Enterprise was also given the option to acquire a holding company within the Texas Eastern group that owned all the oil and gas subsidiaries, but instead opted to purchase each subsidiary separately.

Since the issue of pre-emption arose because ownership of Texas Eastern North Sea was changed, sale of the parent company only would at least have raised another legal hurdle, although this begs the *question of what the legal posi*tion would have been when Enterprise eventually dissolved the company and absorbed the assets.

For Enterprise, the goal is clearly to salvage as much of the deal as possible, preferrably out of court, but it has not yet shown much willingness to *back off from its claim for* some 60 to 70 per cent of any final deal. Amerada and British Gas were only offering about 20 per cent of the shares in the company, and a further discussion on assets produced little concensus, in part because the value of assets to each company is different.

*For Enterprise, for example,* the Texas Eastern stakes in the Beryl field, where Enterprise recently added significantly to its interest, probably assume much greater importance. Amerada, on the other hand, would dearly like to increase its interest in the Waverly/Brunel field, a 400m barrel reservoir where appraisal drilling has recently been completed. While Texas Eastern's stake of approximately 2.19 per cent in the total field appears small, it could help clinch Amerada's arguments to develop the field as operator.

As part of a broader deal, Enterprise might be coaxed into selling its 5.42 per cent stake as well. Amerada currently has 34.07 per cent.

Enterprise must decide by the end of the month how

Graham Hearne, chief executive of Enterprise Oil

much to call of the second tranche in the rights issue. But this deadline is unlikely to trouble Enterprise. Should it underfinance the acquisition, it is still cash rich and could easily find some assets to sell to rebalance its portfolio.

It is the British Gas position which in many ways appears most precarious. The company has shown once again its ability for getting involved in tangled acquisition ploys where it loses control of the outcome.

It has been forced to accept a minority voting position in Bow Valley Industries of Canada. It was pushed back from an agreed deal to purchase Petrocorp when the New Zealand government bitterly accused it of making unreasonable demands after agreement in principle was reached. Its dawn raid on Lasmo shares failed miserably because the *price was pitched too low, and* Gas was forced to retreat.

British Gas's bid for all of Texas Eastern was not much different from what it is now evidently willing to pay for just the UK part of the group.

It is too early to blame one or more companies for intransigence in the negotiations. But it is plain that all three could gain something through an amicable division of the pie, and that this is now in jeopardy.

# Zurich cleared by DTI probe

ZURICH GROUP, the property, motor dealing and demolition group, said the Department of Trade and Industry had investigated "unusual transactions" in its shares dating from last December and had concluded that there was "no cause for concern for the company, its directors or professional advisers".

Zurich said the dealings in question took place directly before it agreed to buy John Garrett & Son, a contractor and property developer, for £16.3m in cash, shares and loan notes.

Its directors had called the transactions to the attention of the Stock Exchange, which passed the information on to the DTI. In a statement yesterday, Zurich suggested that the transactions had been traced elsewhere.

The DTI, in line with its usual practice, declined to comment on the existence or status of any investigation.

## DIVIDENDS ANNOUNCED

| | Current payment | Date of payment | Corres - ponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|
| Boase Messimi ........fin | 7.25† | Aug 4 | 6.75 | 10 | 9 |
| Cronite Group ........int | 1.5 | July 1 | 1 | - | 3.5 |
| English China ........int | 6.6 | Sept 29 | 5.8 | - | 17.5 |
| M&G Fund Inv Tst....fin | 4 | - | 3.5 | 6.9 | 5.9 |
| M&G Gilt/Fixed ........int | 1 | - | 1 | - | 4.1 |
| Merchants Trust ......int | 1.725 | - | - | ‡ | 6.6 |
| Sears ......................fin | 3.65 | - | 3.25 | 5.1 | 4.6 |

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market. ‡Total not less than 7.6p forecast.

## LIT Holdings buy

LIT Holdings has acquired Gracechurch Investments, an institutional and private client fund manager, for an initial £300,000 cash and an additional sum to a maximum £1.7m in shares or loan notes dependent on the level of funds under management and income during the period to end-1991.

## Prospective Group director resigns

Mr David Barker has resigned as finance director of Prospective Group, the marketing services consultant formerly known as Pineapple Group.

Merger negotiations between the USM-quoted group and Doctus, the management consultancy, were announced last week.

Mr Barker apparently could not see a future for himself within a merged group.

Mr Peter Bain, chairman of Prospective, said talks with Doctus were continuing and the post of finance director would be kept open pending the outcome of negotiations.

# Borland plunges into the red by £1.68m

**by John Ridding**

BORLAND INTERNATIONAL, the US software manufacturer which is quoted on the USM, plunged into pre-tax losses of $2.8m (£1.68m) in the year to March 31 1989, compared with a profit of $7.2m last time.

*However, the losses* were confined to the second quarter, when major restructuring was undertaken, and the second half saw profits of some $3m.

Sales and royalty income increased from $76.5m to $90.6m reflecting strong income from its new products, especially towards the year end. Paradox 3, the database system, experienced a strong introduction as did the company's language and spreadsheet software.

Losses per share were 3.9 cents compared with earnings of 10.2 cents last year. Borland, like other US software producers, *does not pay a dividend.*

The company's problems during the year stemmed from a rapid increase in expenditure associated with its international expansion. Total operating costs rose from $52m to $65m and losses of around $6m were sustained as a result of restructuring in the July-September period.

Mr Phillippe Kahn, chairman, president and chief executive, said the company had achieved the objectives of its restructuring policy. Staff levels had been cut from 698 in June 1988 to 492 in March 1989 and overall costs had been reduced by about $1m a month.

Under the restructuring plan Borland has decided to focus on developing its core products in the spreadsheet, wordprocessing, language and database markets, and to increase business ties with Fortune 1000 companies.

Following the announcement of the losses in November and the subsequent nosedive in the *share price, Mr Kahn indicated* that he might consider taking the company private. He said yesterday, however, that market support had improved and there were no current plans for a buy-out.

**● COMMENT**

Since joining the USM in 1986, *Borland's profits have* bounced between extremes with the regularity of a pendulum. Nonetheless, the scale of last year's $10m swing into the red was remarkable even by its own rollercoaster standards. Chartists will now be expecting Borland's fortunes to rebound, as they did in financial 1988 – and there is some support for this view. The explosion in costs has been brought under tight control and the core software products are establishing themselves in a market which is growing at about 15 per cent per annum. More broadly, the management now seems to have a clearer idea of how to develop its products and international penetration along a steadier path. Overall, pre-tax profits should edge ahead of the $7.2m achieved in 1987-88 with the bulk of the improvement coming in the seasonally stronger second half. This puts shares on a prospective multiple of 14.5 – pretty steep compared with the market, but then so is the prospect for improvement.

## City speculates about sale of Nabisco

**By Lisa Wood**

Morgan Stanley, the US investment bank, said yesterday it would be making a major announcement today concerning the British food manufacturing sector. Most speculation in the City centred on an announcement concerning the sale of RJR Nabisco's UK and European food businesses.

Morgan Stanley has close ties to Kohlberg Kravis Roberts, the New York leveraged buy-out specialists which paid *$25bn for RJR Nabisco earlier* this year. It is, for example, advising KKR on the possible sale of Del Monte, RJR's tinned fruit and vegetable business.

An announcement about whether KKR will sell its European snack businesses has been expected since the end of April. Possible purchasers of the businesses – which include Smiths' and Walkers' snacks – include the PepsiCo food subsidiary Frito-Lay, Britain's United Biscuits, Nestlé of Switzerland, BSN of France and Bahlsen of West Germany.

Speculation about the food sector also boosted Unigate shares, which rose 12p to 365p.

## UK COMPANY NEWS

# Boase Massimi reports £12m and attacks BDDP

By Nikki Tait

BOASE MASSIMI Pollitt, the agency and marketing services company which is contesting a £103m bid from Boulet Dru Dupuy Petit, the French agency, yesterday unveiled pre-tax profits of £12.03m in the year to end-March.

With fully-diluted earnings per share running out at 25.34p, it denounced the exit multiple of 11.9 implied by the 300p-a-share offer as patently ridiculous, and compared it with the multiple, now over 20 times historic profits, on which WPP is proposing to acquire the New York-based Ogilvy Group.

The result was about £500,000 higher than analysts' forecasts. The market had been expecting around £12.5m, but that assumed that a £1m pension fund surplus would be included.

However the need to release figures within the bid timetable meant that approval from the Superannuation Funds Office was not received in time. The surplus is now expected to fall into the current year, and was included in the previous profits forecast of not more than the £18m before tax in calender 1989.

BMP's 1988/9 profit compares with a pre-tax figure of £6.72m and earnings of 19.94p in the previous 15-months. A proposed final dividend of 7.25p makes a total of 10p (9p). However, last July BMP increased its size significantly with the acquisition of the Davidson Pearce agency group, and has also made three smaller acquisitions. It declined to detail the impact of the Davidson Pearce merger on the figures, but said that in earnings per share terms it was broadly neutral.

Turnover was £327.5m (£225m), and the pre-tax figure was struck after interest charges of £781,000 against a net credit last time of £504,000. Tax was £4.09m (£2.36m).

There was a £1.77m extraordinary item this time, being various costs and provisions for reorganisation of the business and some closures expenses, offset by certain property disposal profits.

The company added that since the New Year, it had won more than £50m of billings and fees, with cross-referrals accounting for 10 per cent of the new business in the UK.

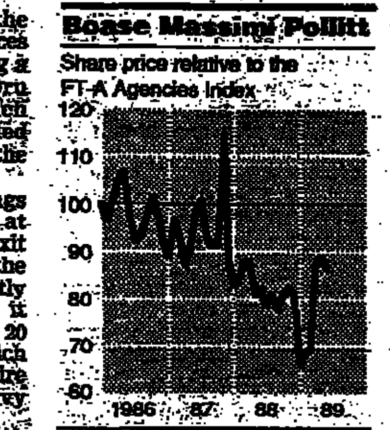
The profit figures brought a swift response from BDDP which noted that the previous 15-month period included two January-March quarters when "BMP has, on its own admission, 'historically incurred losses'". This, claimed the bidder, meant the comparison was with "an artificially low base". It also pointed out that in the 12-month period to December 1987, BMP's earnings per share were 24.85p.

Its advisers dismissed the exit multiple implied in the WPP/Ogilvy example, and suggested that shareholders should look instead at the multiple which BMP offered for Davidson Pearce.

BDDP has until next Monday to raise its offer if it wishes.

**Boase Massimi Pollitt**

Share price relative to the FT-A Agencies Index




# North West defends mine buy

By Clare Pearson

NORTH WEST Exploration, the Belfast-based prospector where 14 per cent shareholder Oliver Resources is attempting to oust the board, yesterday defended its plans to buy a gold mine in Canada, financed by a big issue of shares, and to sell its gypsum deposit in Ireland.

Dublin-based Oliver, which was rebuffed in an £8m takeover bid last December, has requisitioned an egm in Enniskillen, Northern Ireland, next Monday to vote on the removal of the board, and at the same time reject an agreement with Sean Quinn (Quarries) to sell the gypsum deposit in County Cavan in return for annual payments of £500,000 over 20 years.

Earlier the same day, North West is to put proposals to acquire, Antioch, a US company with an option over the Cariboo mine, for about £3.37m in shares and to place a further 2.68m shares.

In his letter to shareholders yesterday, the Duke of Abercorn, chairman, dismissed the attack by Dublin-based Oliver on North West's valuation of the Cariboo mine in Nova Scotia as containing "technical inaccuracies. It does not merit a detailed response".

He said the company's exploration manager believed the mine had considerable potential not accounted for in the valuation presented in North West's circular to shareholders. This had said the mine should be producing 27,000 ounces of gold per annum by 1991.

A detailed agreement with Sean Quinn would be presented to shareholders shortly, he said. Shareholders supporting Oliver would deny themselves the opportunity of voting on this.

Oliver's offer last year gained acceptance in respect of 45 per cent of the shares.

Last week, Transcontinental Holdings, an Australian concern that supported the North West management during the bid, agreed, along with another investor, to sell a 9.7 per cent stake in the company to Oliver if its resolutions are passed next Monday.

# Colefax & Fowler acquisition

By Alice Rawsthorn

COLEFAX & Fowler, one of the Sloane Rangers' favourite interior design groups, is acquiring the Jane Churchill fabrics and furnishings business for up to £1.05m.

Mr David Green, chief executive of Colefax, said the acquisition would enable the group to enhance its presence in the middle market by offering Jane Churchill products as a slightly less expensive alternative to the established Colefax & Fowler collection.

Jane Churchill, which was formed in the early 1980s, is presently operating at a loss after a period of rapid expansion. In the year to March 31 it is estimated to have incurred a pre-tax loss of £895,000 on sales of £2.5m. Mr Green said it had suffered from the "classic small company problem" of over-ambitious expansion.

Mr Green said the losses would be eliminated "almost immediately" by cutting costs. He intends to close about four of Jane Churchill's seven shops and to merge its administration with the established Colefax infrastructure.

In the longer term Colefax will expand the wholesaling side of the Jane Churchill business by increasing sales in the UK, and introducing the products to other countries through its own distribution network. Colefax also plans to eliminate the Brook collection, its present middle market range, in order to concentrate on Jane Churchill.

Colefax will make an initial payment of £713,857 by issuing 424,915 new shares to the vendors. It will also issue 107,143 shares to settle outstanding loans of £180,000. It has agreed to an additional performance-related payment of up to £163,500 in shares. Colefax's shares rose by 3p to 171p yesterday.

# Subsidiary losses take toll on UPL

PRE-TAX profits at UPL Group, the Third Market importer and distributor of brand name food products, fell from £404,000 to £332,000 in the year to January 31 1989.

A major factor in the decline was the acquisition at the start of the year of Robinski, and its subsidiary, Andrews, which at the time were making significant losses. Both needed considerable rationalisation, but UPL substantially underestimated the problems at Andrews and the business had to be closed in the autumn.

The decision to close Andrews was taken too late to avoid large losses in the final weeks of its trading, which inevitably had an impact on the group's trading profits for the year. Profit growth from established businesses was largely eclipsed by these problems.

Turnover rose to £14.6m from £8.7m but earnings per share dropped slightly to 5.28p from 5.77p. The company is paying a final dividend of 1.75p (1.41p) making a 2.75p (1.41p) total for the year.

# Platignum pays £100,000 for Pegasus Furniture

By Clare Pearson

PLATIGNUM, the pen, doormat and table cruet company, has made its first acquisition since company doctor Mr Stanley Cohen, credited with turning around doorstep retailer Betterware, was brought in to revitalise it three months ago.

The company is paying £100,000 for Pegasus Furniture, a flat pack furniture manufacturer with sales of around £5m.

Mr Stephen Quinn, former chief executive of stamp dealer Stanley Gibbons who joined with Mr Cohen, said Pegasus had been under-capitalised but had considerable potential.

Three reproduction furniture companies owned privately by Mr Cohen came into Platignum in his £2.4m reverse takeover in March, when £3.4m was also raised by a way of an issue of shares.

However, Mr Quinn said Platignum was definitely not confining itself to furniture companies in its search for suitable acquisitions.



## Strong increase in profits from Unistrut Europe

Unistrut Europe, the metal framing structures group traded on the Granville Independent Companies Exchange, made pre-tax profits of £1.14m for 1988, compared with £172,000.

However, the figures were distorted by the major capital restructuring of March 1988, and a more relevant comparative basis, assuming the existing group structure for both years, showed profits up from £855,000 to £1.23m.

Mr Peter Ryan, chairman, said sales in the period had increased comfortably.

## Caird plans expansion in South Wales

Caird, waste disposal company, has purchased three industrial services businesses in south Wales for £2.2m in cash and paper, writes Vanessa Houlder.

Mr Peter Lindsey, chairman, said the acquisitions were expected to provide the management infrastructure and relationships with the big waste producers. The next stage in its strategy was to build up landfill and treatment facilities in South Wales, he said.

The businesses will be combined into a single company, Caird Environmental (Wales).



# Where there's muck, there's now more brass

**Vanessa Houlder** on the re-rating of Attwoods and how changes will boost the sector

SHOULD ANYONE doubt the sincerity of much of the recent rhetoric on environmental issues, they can take heart from the stock market's enthusiasm for companies in the waste business.

Since the start of the year, the shares of the half dozen quoted UK companies in this sector – Attwoods, Caird Group, HT Hughes, Leigh Interests, Rechem Environmental Services and Shanks & McEwan Group – have risen by an average of 37 per cent.

Attwoods has especially benefited from the improved image of the sector.

While no business based on discarded hamburger wrappers could ever expect a particularly august image, Attwoods has sometimes seemed to have less gravitas than most.

In part, this was due to the presence of Mr Denis Thatcher as deputy chairman. Although his wife's fame ensures a good attendance for Attwoods' cocktail parties and helps wins contracts in the US, it also ensures endless column inches in the likes of Private Eye.

In addition, the marriage of chairman Mr Ken Foreman to Ms Mandy Rice-Davies – of Profumo scandal fame – adds a splash of colour to the company's image.

This image used to be blurred further by the involvement of the hyperactive, unpredictable Mr Michael Ashcroft, chairman of ADT (the former Hawley Group), which was a 28 per cent shareholder until earlier this year.

Another distraction stemmed from the fact that the bulk of Attwoods' revenues were generated in the US.

Accordingly, the shares took a drubbing after the dollar's decline in 1987 – even though exchange rates have no relevance for the group's day-to-day operations.

The upshot was that shares in Attwoods – although they have enjoyed a slow re-rating in recent years – were probably undervalued against comparable businesses, given the company's strong trading record.

Pre-tax profits have risen from £11.9m to £14.7m for the year to July 1988, with an estimated £23m pencilled in by analysts for 1988-9.

But the undervaluation of Attwoods shares is over, as witnessed by their recent ascent to a prospective p/e of 17.

The reasons for the reappraisal are simple, although there are subtle differences in the perspectives of investors from opposite sides of the Atlantic.

From the point of view of UK investors, the tighter legislation in prospect will result in a shake-out of the small private players which lack the resources to upgrade their operations.

Their loss should be the gain of the half dozen larger, quoted companies.

Moreover, Attwoods is seen as an attractively defensive share in an uncertain economic climate.

From the US point of view, the re-rating is a belated recognition of the merits of the waste industry in the US, Attwood's main market. "US investors are more excited about the garbage business than UK investors," said an analyst at Kidder Peabody, the US broker. "A lot of exciting things have happened in the past three years...pricing changes, transfers of business from the municipal to the private sector and the consolidation of the business down to a few large operators."

The trigger for the re-rating was a transaction that brought out Attwood's hidden value, he said.

In January Laidlaw Transportation, North America's third largest waste management company, bought ADT's stake, although Mr Ashcroft has stayed on the board as Laidlaw's representative.

Laidlaw's motive not entirely clear, given its pledge not to bid for Attwoods in the next two years.

Mr Foreman implies that the deal was done at the whim of Mr Michael DeGroote, Laidlaw's Belgian-born chief executive, who last year sold a stake in his company to Canadian Pacific for £235m.

"I genuinely believe that if you are in this bracket of this kind of money you buy now and think later," Mr Foreman said.

Ken Foreman: In this bracket, you buy now and think later

**US investors are more excited about the garbage industry than UK investors. A lot of exciting things have happened in the past three years**

Some analysts believed that Laidlaw was acting defensively, to prevent Attwoods from being snapped up by US suitors such as Waste Management and Browning Ferris Industries.

Others believed that the stake would just be a prelude to an agreed bid. Mr Roger Hardman of James Capel said: "Laidlaw and Attwoods have so much in common that a merger between the two would have been logical."

Further confusion has been added by a subsequent deal which left Laidlaw with a 24 per cent stake in ADT. Mr Hardman believes this makes a full merger less likely, since it shows that Laidlaw is comfortable with the notion of a loose grouping of associated companies.

Already it seems, there is some co-operation as Attwoods seems likely to buy out two of Laidlaw's Florida waste companies.

Further deals seem possible to tidy up the geographical strongholds of both companies. Analysts also suggest that there could be joint ventures on landfill sites.

Both factors could influence Attwoods' rating. It has tended to be underrated against peer companies in the US because the bulk of its operations are concentrated in one state – Florida – and because it is weak on landfill sites. These are set to become particularly important in the US, where recent proposed legislation has set tough standards that will result in the closure of some sites and higher charges in those that are approved.

Attwoods is dabbling with landfill and toxic waste both with the acquisition of a potential site in Pennsylvania and its 40 per cent stake in Vesta Technology, which designs and operates mobile incineration units.

Mr Foreman believes that these incinerators could have an important future if they succeed in getting official approval over the next year.

But the focus of Attwoods' attention is still its waste collection business.

"There is a lot of talk about the glamour businesses of toxic and landfill. But there is a vast waste collection industry, which is never going to go away," says Mr Foreman.

The US and continental Europe are seen as the main targets for acquisitions, because of the size of the markets.

In the US for example, the solid waste market is estimated to be an annual $20bn, with the public companies controlling a fifth of the total. Attwoods entered the US in 1984 and that market now accounts for about three quarters of profits.

The UK, where Attwoods has long been involved in collection, quarrying and landfill, is not a focus for acquisitions. However, it promises to provide other opportunities.

Attwoods reckons that it is well placed to benefit from the new requirement of local authorities to put rubbish collection services out to tender.

Mr Foreman estimates that Attwoods can operate 20 per cent more cheaply than a local authority. That results from more efficient working patterns and not, he claims, through lower wages for the workers.

It has just won its first such contract in Christchurch, Dorset. But Attwoods argues that the likelihood of it winning further local authority contracts is muted by the necessity to put the redundancy costs of the local authority's personnel onto one five-year contract.

As this is perceived to give the local authority's own team an unfair advantage, the trade association is lobbying the Department of the Environment for a change in the rules.

Leaving aside the added spurs of privatisation and tougher environmental legislation, Attwoods seems likely to benefit from trends in packaging and consumption by which Western countries throw away refuse in ever greater quantities. Although how much greater is difficult to judge.

UK waste is estimated to be growing by between 5 and 7 per cent a year – but statistics are notoriously unreliable in this field.

Attwoods' own assertion – boldly emblazoned upon its annual report – that "100 per cent of the gross national product worldwide ends up as waste..." is a touch tendentious.

However, its conclusion that "opportunities in the waste management industry are considerable" is impossible to dispute.

# Gamble of cash versus prospects

**Philip Coggan on Bowater/Evode choice for Chamberlain holders**

ON THE surface, the choice facing Chamberlain Phipps shareholders as they enter the last week of the bid battle for their company is clear cut.

Do they take the money – 230p per share in cash from *Bowater Industries* – or do they opt for the paper of Evode and bank on a prosperous future for the merged Evode/Chamberlain?

Last week, the board of Chamberlain Phipps finally made its choice. The directors of the shoe components and adhesives group decided that the values of the two offers were roughly equivalent and that a merger with plastics and chemicals group Evode had the greater industrial logic.

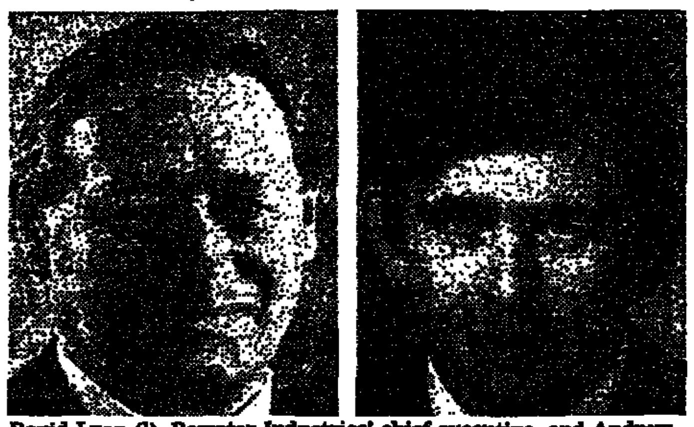
But that may not settle the matter.

Chamberlain's directors have only a small bundle of shares – 134,000 or less than 0.3 per cent – to throw into the pot. Bowater has already accumulated 23.9 per cent of Chamberlain's equity in purchases and acceptances, compared with the 17.1 per cent behind Evode.

Chamberlain had in fact recommended Evode's offer once before, only to withdraw the backing when Bowater brought in its rival offer.

That change of heart may cost some directors a seat on the enlarged board if Evode wins on Friday, since it is not certain that Evode will reconstitute the *carefully* balanced boardroom structure that was originally agreed. Last week Evode's finance director, Mr Tony Wain, said the "business will be run by Evode, with Evode's management style".

It seems likely that the independence of Chamberlain Phipps, which has been run by several Chamberlain generations culminating in the present chairman David, is over.



David Lyon (l), Bowater Industries' chief executive, and Andrew Simon, Evode chairman – rivals for the hand of Chamberlain

Ironically the business for which the Northamptonshire-based company is best known – shoe components – is not *really the focus of the bid* battle. The UK shoe components industry is cyclical and vulnerable to imports. Chamberlain's earnings per share are still lagging behind the level achieved in 1980.

Both bidders are more interested in the adhesives and sealants businesses which Chamberlain built up in the 1980s. This diversification has not been without its critics – in the course of a previous bid, Mr Brian Taylor of Wardle Storeys described it as "ill judged and poorly directed" – and this year, problems in the *division mean that* Chamberlain's profits will be flat.

Bowater argues that Rexham, its coatings and laminates business, would bring technological expertise to Chamberlain's adhesives and sealants operations.

Evode believes that the combination of *its* adhesives and sealants division with Chamberlain's would create a division with sales of £75m and able to compete in world markets. It also argues that Evode and Chamberlain have interests in common in plastics, *automotive products and shoe* components.

Bowater counters that the Evode merger will just bring "more of the same" in adhesives and sealants rather than the much broader base, both geographically and in products, that would be created by a Bowater/Chamberlain combination.

Of course, the technological benefits of a Bowater takeover matter little to Chamberlain shareholders since they will lose all interest in the company if they take the cash. Bowater's case rests on the financial arguments.

At the moment, the Evode offer, based on yesterday's share price of 190p is worth more (about 237p per Chamberlain share) than Bowater's offer. But Bowater has questioned the extent to which Evode's shares would maintain their value *if it wins the bid* battle.

Evode is offering six ordinary shares and 11 convertible preference shares for every 10 in Chamberlain – that means that Evode is creating an additional 80 per cent of its existing equity. And in a circular posted to Chamberlain shareholders last week, Bowater pointed out that Evode's shares were trading on an historic p/e of 14, but its offer valued Chamberlain on an exit p/e of 20. That suggested a strong element of dilution.

However, when Evode increased its offer at the end of April, it declared that it expected annualised rationalisation benefits of £3.5m within the next 18 months. Last Friday it spelled out how those benefits could be realised.

Evode would relocate some manufacturing operations, rationalise head office functions, use Chamberlain Phipps' US manufacturing base for servicing the automotive industry *(thereby avoiding tool manufacture costs)* and cross-source key products.

Nevertheless, it is rare for companies that issue such large chunks of equity to show startling share price growth. "It is difficult to see Evode's share price outperforming *if the bid is successful*," says Ms Jinty Price, a chemicals analyst at Barclays de Zoete Wedd.

A lot may depend on the whether the main institutional shareholders will stick loyally by the Chamberlain board's recommendation – and many of them backed Chamberlain during the *unsuccessful* Wardle bid. Bowater's purchases may have simply drawn out the loose holders in the market.

There is a third option.

Both bidders could end up with less than 50 per cent of the equity, and Chamberlain would be left nominally independent. But that is a prospect that none of the parties involved wants to contemplate.

# Cronite Group advances 71% to £1.08m and lifts dividend by 50%

Cronite Group raised its pre-tax profit by 71 per cent for the half-year ended March 31.

And in view of the likely outcome for the year, the interim dividend is raised from 1p to 1.5p with the expectation that the final will, at least, be maintained at 2.5p. Mr Jim Butler, chairman, said demand had stayed strong throughout the group and he looked forward to a satisfactory second half.

Turnover in the six months advanced 77 per cent to £27.2m (£15.36m) and the profit was £1.08m (£633,000). Earnings worked through at 5.2p (3.6p).

Mr Butler reported that Cronite Alloys, the metal reclamation business, produced record figures, and continuing high demand for stainless steel scrap was forming the base for further development.

Cronite Steels, processor of rolled and forged alloy and carbon steel bars, also had a record year, and new product lines were introduced to good effect.

The foundry companies generally performed well, and the two specialist fabricators both enjoyed peak years.

The chairman pointed out that before declaring the interim dividend, note had been taken of the auditors' qualification in last year's full accounts. That referred to the uncertainty of the outcome of claims made against Cronite Alloys.



# Expamet sells £3m Australian holding

**By Peter Franklin**

EXPAMET INTERNATIONAL, security and industrial products group, has sold its 50 per cent holding in Expamet Pty of Australia for A$ 6.26m (£3m).

This is the first of a series of planned disposals announced in January, when the company launched a £13.5m rights issue to help finance the £49m purchase of Radionics, a US security components supplier.

The acquisition formed part of the company's strategy of concentrating on its core activities in the building, industrial and security markets.

In the rights issue circular Mr Jeremy Beasley, executive chairman, announced that the company planned to dispose of three companies which did not fit in with its future plans: Signfix, CASE-Videoscan and Expamet Pty.

The Expamet Pty holding has been bought by Development Capital of Australia, the previous joint owners, for a cash consideration of A$ 6.26m. At June 30 1988 the net assets of Expamet Pty were A$ 4.04m and pre-tax profits for the year were A$ 1.66m.

Mr Alex Orr, Expamet group managing director, said he felt that Expamet could no longer add value to the company and that DCA was interested in becoming sole owner.

The sale, along with the other planned disposals, would allow the company to focus on its strategic aims and substantially reduce net borrowings, he said.

# Queens Moat makes £15m hotel acquisition

**By Clay Harris**

QUEENS MOAT Houses is to buy the Plymouth Holiday Inn, a 217-bedroom hotel which will be third largest of the group's 83 properties in the UK. The seller is Commonwealth Hotels International, a Canadian-based company which owns and operates several Holiday Inns in Britain.

Although the price was not disclosed, it is likely to have been in the region of £15m to £16m, considerably less than the going rate of £100,000 per bedroom for UK provincial hotels.

Built in 1971, the Holiday Inn has proved too large for Plymouth, having perhaps 60 rooms more than the optimum size, according to Queens Moat. From Holiday Inn's reliance on international guests, the new owner plans to shift the emphasis of the renamed Plymouth Moat House to domestic business travellers and to seek customers for its conference, banqueting and leisure facilities.

This formula, including an emphasis on provincial rather than metropolitan hotels, has proved successful in the UK and continental Europe, where Queens Moat has 55 properties in four countries. Purchases of additional individual hotels are under negotiation in the Netherlands and West Germany.

# Likely shortfall at Bernard Matthews

MR BERNARD MATTHEWS, chairman of the turkey and meat products group which bears his name, told shareholders that pre-tax profits in the first half of 1989 were unlikely to match the £4.57m achieved in the same period last year.

When the company reported its 1988 results in March, Mr Matthews noted that sales had been depressed since January by what he described as "scaremongering publicity on food quality."

He told the agm yesterday that this situation had continued but that, very recently, there had been signs of an improvement.

In 1988, Matthews' profits were falling even before the food scares, finishing at £10.24m, some 27 per lower than the full-year figure for 1987.

In the first half of 1988, the group was hit by weak selling prices because of high stocks.

Matthews shares were 2½p lower at 72p yesterday.

# Analysis Corp

Analysis Corporation, a financial information service, plans to join the Third Market by the end of next month.

The company, sponsored by Cambridge Capital, is raising £5.5m by way of a combined institutional placing and offer for subscription. Priority subscription rights are expected to be given to shareholders in Tranwood, the financial services house, which owns 49.9 per cent of Analysis.

# Tootal expanding US home sewing interests

**By Alice Rawsthorn**

TOOTAL, the textiles group in which Mr Abraham Goldberg, the Australian industrialist, has built up a significant stake, plans to expand its consumer thread interests in the US by buying Dimensions for £10m.

Dimensions, which is a privately owned business based at Reading in Pennsylvania, is the leader of the US market for needlecraft kits. The company makes kits for needlepoint and cross-stitching.

Tootal *is* already one of the leading players in the US home sewing sector with haberdashery products such as sewing thread and zips. It vies for market leadership with Coats & Clark, a subsidiary of Coats Viyella, the biggest UK textile group.

Mr Greg Cheskin, chief executive officer of Tootal's consumer thread business, said the acquisition represented an opportunity for the group to diversify into "complementary areas" of the home sewing market.

Dimensions, which made pre-tax profits of £1.75m on sales of £6.7m in its last financial year to July 31, will function as an independent business within Tootal. Although Mr Cheskin envisaged expanding its presence outside the US through the group's existing marketing and distribution network.

In recent months Tootal has become embroiled in takeover speculation after the announcement that Mr Goldberg – who staged an unsuccessful bid for the group in 1985 – was amassing a holding.

He now controls over 24 per cent of Tootal's equity.

Two weeks ago Tootal announced a 5 per cent rise in pre-tax profits to £42.8m on slightly lower sales of £491.5m for the year to January 31.

The results, which fell at the lower end of the City's expectations, reflected the general problems of the UK textile industry, Tootal's difficulties with its office supplies interests and the impact of adverse exchange rates.

## COMPANY NEWS IN BRIEF

**ADDISON CONSULTANCY:** Motivaction has purchased a further 250,000 ordinary and now holds 14.03m (23.54 per cent).

**BRITISH AEROSPACE:** At May 5, 38.21m ordinary shares, representing 14.92 per cent of the capital, were registered as foreign-held as defined in group's articles of association.

**COOPER (FRED)** is to purchase an 80 per cent interest in American Coil Coating for $85,000 and has an option over the remaining 20 per cent. ACC specialises in the application of paint coatings to ferrous and non-ferrous metal coils. In the year ended September 30 1988 it incurred a loss of $18,962 on turnover of $5.5m.

**CROWN COMMUNICATION** Group: The acquisition of 29.9 per cent of Radio Mercury is not being referred to the Monopolies Commission.

**DUKEMINSTER** and Barclays de Zoete Wedd have formed a 50-50 joint company to acquire a newly constructed freehold investment property at Ross-on-Wye valued at around £9.2m. Dukeminster will be responsible for the management.

**FITZWILTON:** The acquisition of Keep Trust is not being referred to the Monopolies Commission.

**FLEMING FAR Eastern Investment Trust:** Net asset value per 25p ordinary share rose from 214.4p to 274.3p over the 12 months ended March 31 1989. Net revenue for the period totalled £2.94m (£1.56m) after tax of £1.58m (£875,000). A final dividend of 1.6p makes a total of 1.8p (0.9p).

**GLASGOW INCOME Trust:** Third interim dividend 0.5p, making 1.3p for period June 28 1988 to March 31 1989 – total of 3.44p reaffirmed for the 15 months to end-September. Net revenue for period to March 31 was £582,000 and earnings 2.01p. Net asset value 49.3p. *Intended to launch a savings* plan later this year.

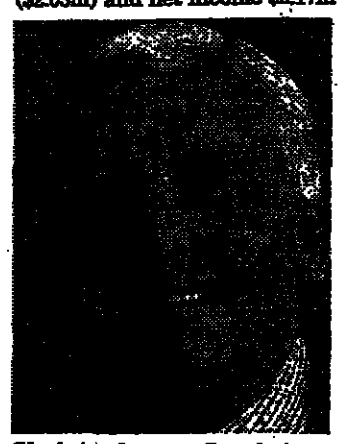
**GREAT LAKES Chemical Corporation:** The proposed acquisition of a 51 per cent interest in Octel Associates and its operating company, Associated Octel Company, is not being referred to the MMC.

**GWR GROUP** has received IBA approval for its merger with Consolidated Radio Holdings.

**HAWKMAC:** The proposed acquisition of certain assets from Hanson is not being referred to Monopolies Commission. The assets are Allders International, Allders Department Stores, and Hanson AIP.

**HEYWOOD WILLIAMS** has acquired Sovereign Glass, a specialist glass processing business based in Leeds. Combined turnover of that company and Sovereign Aluminium for the nine months ended February 1989 was £1.29m.

**HUNTINGDON INTERNATIONAL Holdings** (life sciences and engineering services): Revenues $17.03m ($13.05m) for second quarter to March 31 1989; pre-tax income $2.46m ($2.03m) and net income $2.17m



Christopher Lewinton, chairman elect TI Group

($1.67m). Earnings per share £0.049 (£0.040). Earnings per ADR $0.416 ($0.337). Company has acquired Patzig Testing Laboratories of the US for $1.25m (£744,000). Iowa-based Patzig is market leader in its region, specialising in geotechnical engineering, non-destructive and metals testing and the testing of automotive safety equipment.

**ISRAEL (JACK L) Group:** Following closure of the warehousing and transport operations, company has disposed of freehold property in London, E14 for £1.5m cash. This property had book value on completion of £310,000. In addition, company has acquired 10,000 sq ft freehold property in Chertsey, Surrey, for £700,000 cash.

**JOHNSTON PRESS** has acquired South Yorkshire Times and Times Extra from Reed Northern Newspapers. Johnston now has 57 paid-for and free newspapers in Scotland and England.

**LEIGH INTERESTS** has acquired Alan Warner, Leicestershire based waste disposal concern, together with associate freehold property for £1.3m, payable as to £1m in shares and the rest in cash.

**LINREAD** shareholders were told at the annual meeting that demand from both the aerospace and the automotive industries remained strong and had resulted in a good start to the year. The forecast decline in automotive building was not yet apparent, although current interest rates could dictate a slowing-down of sales. The directors looked forward with confidence to the outcome for *the full year.*

**MEZZANINE CAPITAL & Income Trust 2001:** Net revenue for the 12 months to end-March totalled £1.81m, equal to earnings of 12.08p. The figures compare with £2m and 13.38p respectively for the period December 17 1986 to March 31 1988. *A final dividend of 6.1p* makes a total of 12p (13.25p for 17 months).

**MIL RESEARCH Group** has purchased MRC Pharma, a pharmaceutical research company in Amsterdam, for $525,000 (£312,000) cash.

**OPPIDAN ESTATES'** acquisition of assets of London and Edinburgh Trust and of Storehouse is not being referred to the Monopolies Commission.

**PERGAMON AGB** has acquired the outstanding 9.6 per cent minority interest in its Canadian subsidiary, Columbia Computing Services for £0.85m cash.

**TI GROUP:** Mr Ronny Utiger, chairman, said at agm that trading conditions had remained good in first quarter and profits were ahead of same period in 1988. Disposals had meant net borrowings of £41m at year end had been eliminated. Mr Utiger is being replaced as chairman by Mr Christopher Lewinton.

**TRANSCONTINENTAL SERV:** Banner Investments has extended its offer to May 19. At May 5 it had received acceptances in respect of the share *offer of 5.8m TSG shares* (17.9 per cent) and has also agreed to acquire an aggregate of 3.5m shares. Banner can speak for 29.98m shares (92 per cent) and 1.07m TSG warrants (87.6 per cent).

**WAGON INDUSTRIAL Holdings** has acquired Avon Mobile Storage and Mobile Storage (Bristol) for a total of £520,000 in cash and shares.

**WARMAN INTERNATIONAL**, slurry pump manufacturer, has taken over KHD Humboldt Wedag AG pump division of Cologne, West Germany.

## SHARE STAKES

The following changes in company share stakes have been announced:

**Allied London Properties:** Morris Leigh has disposed of *100,000* ordinary (0.15 per cent) and now holds 8.06m (11.97 per cent).

**Beacon Group:** Company has received notice from Howmac exercising its options to subscribe for 737,720 ordinary at 36p per share. This number of shares has accordingly been allotted to Howmac, which now holds 1.18m ordinary (5.16 per cent).

**Breedon:** Discretionary investment portfolios managed by Mercury Asset Management Group have increased holding by 2.37m shares making holding 5.51m (19.4 per cent).

**Burns-Anderson:** The Family Assurance Society has acquired 140,000 ordinary and is now interested in 2.38m ordinary (8.49 per cent).

**Courtney Pope:** West Nominees are interested in 760,311 ordinary (5.78 per cent).

**European Home Products:** Scottish Amicable Investment Managers advised that funds under management of Scottish Amicable Nominees now hold 2.88m ord (5.2 per cent).

**Farnell Electronics:** Baillie Gifford and Co. Investment Managers have disposed of 1m ordinary reducing holding to below 5 per cent.

**Ford Sellar Morris:** I. Sellar, director, acquired from fellow director N. Wallis, 350,000 ordinary at 150p per share, of which £385,000 was paid on April 27 with the balance of £140,000 payable on February 14 1990.

**International Media Communications:** Paul Berman has disposed of 1.4m ordinary reducing his holding to 2.83m ordinary (3.72 per cent). **Dominion Holdings** has acquired 500,000 ordinary increasing holding to 4.35m ordinary (5.72 per cent).

**Jacques Vert:** CIN Industrial Investments now has an interest in 475,000 ordinary (5.01 per cent).

**Mucklow (A and J):** Allan J. Mucklow has disposed of 150,000 ordinary (0.2867 per cent) at 249p per share. His total holding is now 3.01m ordinary (5.76 per cent).

**Polymark International:** Scottish Mutual UK Equity Unit Trust has disposed of 25,000 preferred "A" shares registered in name of Clydesdale Bank (Head Office) Nominees. This disposal reduces holding of Scottish *Mutual* unit trusts managed by Scottish Mutual Investment Managers to 131,880 preferred "A" shares (4.27 per cent).

**RKF Group:** As a result of market purchases, the Friends Provident Life Office holds 2.81m ordinary (7.03 per cent).

**Robinson (Thomas) Group:** Prudential Corporation Group is now interested in 1.75m ordinary (6.04 per cent).

**Williamson Tea:** CDFC Trust has acquired 5,000 ordinary (0.22 per cent) and now holds 401,575 (17.55 per cent).

## FT LAW REPORTS

# UK trustee not liable for tax

**DAWSON v. INLAND REVENUE COMMISSIONERS**
House of Lords (Lord Keith of Kinkel, Lord Templeman, Lord Ackner, Lord Oliver of Aylmerton and Lord Lowry): May 4 1989

**A TRUSTEE residing in the UK whose joint trustees reside abroad, is not liable to tax on trust income arising from investments situated outside the UK.**

The House of Lords so held when dismissing an appeal by the Inland Revenue from a Court of Appeal decision (*[1988] 2 FTLR 313*) that trustee, Mr Oliver Dawson, was not liable to tax on foreign trust income.

Section 108 of the Income and Corporation Taxes Act 1970 provides that tax under Schedule D: "... shall be charged in respect of (a) the annual profits or gains arising or accruing – to (i) any person residing in the UK from any property whatsoever, whether situated in the UK or elsewhere ..."

Section 114(1): "... income tax under Schedule D shall be charged on and paid by the persons receiving or entitled to the income ..."

**LORD KEITH** said that until 1977 Mr Dawson was a trustee under three discretionary settlements governed by English law, made between 1946 and 1965 by a family called Cotton. The principal beneficiaries were the issue of a Mr Gordon Cotton.

In 1969 Mr Gordon Cotton emigrated to Switzerland and became permanently resident there.

Until February 1974 each trust had three trustees, all resident in the UK.

On that date the two other trustees resigned and were replaced by a Swiss resident and a company based in Liechtenstein.

During the fiscal year 1975/76 the trust assets consisted principally of non-UK securities held by foreign nominees. Certain small sums were paid by the trustees to Mr Gordon Cotton for his infant children, and the rest of the income was accumulated.

Distributions were decided on at a trustees' meeting in Switzerland.

In that year the Revenue assessed Mr Dawson to basic rate tax and additional rate tax on the whole income of the three settlements, including that arising from the foreign assets.

Mr Dawson accepted liability for tax on income from UK assets, but disputed liability on income from the foreign assets. He appealed to a special commissioner who decided against him.

That decision was reversed by Mr Justice Vinelott, and the reversal was affirmed by the Court of Appeal. The Revenue appealed.

The issue was whether, where one of a number of trustees resided in the UK but the others lived abroad, the one who resided in the UK was liable for tax on trust income arising from assets situated outside the UK.

The Revenue accepted that the trust income accrued to the three trustees jointly, not jointly and severally, so that none of them was separately entitled to any particular share of the income.

It was contended, however, that on a proper construction of paragraph 1(a)(i) of section 108 of the Income and Corporation Taxes Act 1970, the whole income from the foreign investments accrued to Mr Dawson as "a person residing in the United Kingdom," and that the fact that it accrued to him jointly with two co-trustees resident abroad was irrelevant.

In section 108(1)(a)(i) "person" must include the plural "persons", by virtue of section 6(C) of the Interpretation Act 1978.

If all three trustees had been resident in the UK, application of the 1970 Act would have been such that the income would have been treated as accruing to all three, and they would have been jointly assessable to tax.

In the present situation, where one trustee was resident in the UK but the other two were resident abroad, the income likewise accrued to all three, but all three could not be jointly assessed to tax. There could be no justification for assessing Mr Dawson alone, on the ground that he was resident in the UK, because the income did not accrue to him personally.

Similarly, when one turned to section 114(1) of the Act, it was found that "the persons receiving or entitled to the income" were the three trustees jointly. Should "persons" be turned into the singular "person", Mr Dawson as an individual could not properly be described as *the* person receiving or entitled to the income.

The enactments did not impose liability to tax on Mr Dawson in respect of the foreign income.

Much was made of the anomalies which would arise if the competing argument was successful.

For Mr Dawson it was urged that if the Revenue's argument were correct, the foreign income from a trust made by a settlor domiciled abroad and administered abroad would, if no beneficiary had a vested right to the income and if one of several co-trustees happened to reside in the UK, be assessable to UK tax on that one trustee. He would be unable to obtain any indemnity out of the trust funds.

The Revenue observed that if Mr Dawson's argument were correct, the foreign income of an accumulation trust administered in England and governed by English law could avoid taxation by the simple expedient of appointing one co-trustee resident abroad.

The issue could not be resolved by a balancing of the anomalies. It was sufficient that the enactments directly in point did not, on sound analysis, support the construction contended for by the Revenue. There was much to be said for making tax liability depend on the centre of administration of the trust and the place of residence of the majority of the trustees, as was the case with capital gains tax. But Parliament had not so far chosen to do that.

The appeal was dismissed.

Their Lordships agreed.

*For the Revenue: John Mummery (Inland Revenue solicitor)*
*For Mr Dawson: Stephen Oliver QC and James Kessler (Simmons & Simmons)*

**Rachel Davies**
*Barrister*

## COMMODITIES AND AGRICULTURE

# Opec production worries send oil prices lower

By Steven Butler

OIL PRICES fell sharply yesterday in thin trading as worries about a rise in oil production by the Organisation of Petroleum Exporting Countries hit the market.

Opec production has risen strongly in the past month in what appears an attempt by member nations to strengthen their bargaining positions for higher quotas in advance of the Opec ministerial meeting in early June.

Brent crude cargoes for June delivery were off 55 cents in European trading to close at $17.85 a barrel. At the New York Mercantile Exchange, June futures for West Texas Intermediate fell 39 cents to $19.65 in midday trading.

The International Energy Agency reported on Friday that Opec output had surged by 700,000 barrels a day to 20.5m b/d in April, 2m b/d above the cartel's self-imposed production ceiling. However, the IEA's estimates tend to be snapshots taken during the third week of the month, and could be subject to revision.

Petroleum Intelligence Weekly, the oil industry newsletter, estimated that Opec's April crude production averaged 20.94m b/d, and increase of 700,000 b/d over March. The increases were accounted for by a 400,000 b/d rise in Saudi Arabian production, to 4.8m, and a 300,000 b/d rise in Kuwaiti production, to 1.5m.

Other Opec members producing significantly above quota include Iran, Iraq, the United Arab Emirates. Some oil company observers believe Opec production may have surged even further above 21m b/d.

Saudi Arabia, however, has consistently denied that it is breaking its quota, which is defined by sales and not by additions to storage. It would thus appear that Saudi Arabia is strengthening its position by sharply increasing stocks close to markets, which it could supply quickly should a real war over market share develop.

At the June Opec meeting an increase in production levels is expected to be considered, requiring discussion of the contentious issue of how to allocate the increase among members. Opec members have often sought to increase claims for a higher quota by showing that they could increase production.

Another contentious issue likely to surface at the ministerial conference is the definition of condensates, light hydrocarbon liquids which are excluded from the agreement. Venezuela has failed to have over 300,000 b/d of liquid production classified as condensate.

● Trading on the London-based International Petroleum Exchange rose to a record 298,505 contracts in April, more than half of which was accounted for by the Brent crude oil futures, which is less than a year old. The Brent contract hit 152,877 lots.

The IPE is to start crude oil options trading on Thursday but the launch of a heavy fuel oil futures contract has been put back by about a month to the end of July.

# London set to handle Ivory Coast cocoa

By David Blackwell

THE IVORY Coast, the world's biggest cocoa producer, looks set to market next year's crop through London.

The move will be a major change in policy for the country and the Caisse de Stabilisation, its commodities marketing board, which has strong links with France. Last year, the Ivory Coast sold most of its crop to Sucre et Denrees (Sucden), the French trade house.

One London trade house, which does not want to be named, believes it has a mandate to sell up to 650,000 tonnes of Ivory Coast cocoa in the 1989-90 season.

But some analysts feel the deal would be too big for a single trade house to handle, although it could act as an agent for the Caisse.

Mr Konan Bledou, chairman of the finance committee of the Ivorian National Assembly, was in London on Friday for the annual dinner of the Cocoa Association of London. "We know London is the strongest place to sell cocoa and coffee – it is the premier market," he said.

Prices in London dipped to fresh 13½-year lows yesterday morning on news of a possible London deal. The July contract touched £701 a tonne before recovering to close at £710 a tonne.

Analysts believe the move will continue to be bearish for the terminal markets, given the huge oversupply of cocoa. Both the International Cocoa Organisation and Gill & Duffus, the London trade house, put the surplus of supply over demand for the current crop at 198,000 tonnes.

But a benefit should come in improved supplies of Ivory Coast beans.

"Supplies will be more regular and consistent than anything we've seen for the last crop," said Mr Tony Chadwick of Prudential Bache.

In January the Ivory Coast sold 400,000 tonnes of this year's crop to Sucden, half to be stored and half to be sold on to customers. Since then, a further deal for 125,000 tonnes is believed to have been concluded.

However, it appears the links with Sucden have have not turned out as well as the Ivory Coast expected.

**LME WAREHOUSE STOCKS**
(Change during week ended last Friday) tonnes

| | | |
|---|---|---|
| Aluminium | −4,650 | to 94,425 |
| Copper | +17,175 | to 131,275 |
| Lead | −275 | to 38,625 |
| Nickel | −150 | to 4,974 |
| Zinc | +1,800 | to 35,500 |
| Tin being reassayed | | |
| Silver (oz). | −24,000 | to 10,090,000 |

# Court battle over coffee policy

By John Barham in Sao Paulo

TRADING IN the Brazilian coffee industry ground to a halt on Friday after a Rio de Janeiro court awarded a maverick coffee exporter the right to ship 450,000 bags of coffee independently of the Brazilian Coffee Institute (IBC), which regulates the production and export of Brazilian coffee.

Mr Umberto Modiano won a restraining order against the IBC allowing him to sell his coffee without paying its export fees and without having to bid for export rights at the auction. The IBC set up the auctions last year to distribute International Coffee Organisation export quotas more fairly.

Friday's auction was suspended in mid-session after the news of the court decision spread. However, Mr Modiano's triumph was short-lived because the IBC's lawyers managed to overturn the order on Friday evening. The auction was resumed yesterday setting the price for export rights at $21 to $22 a bag.

Had Modiano got his way Brazil's entire coffee policy would have been paralysed. And since the country is the world's largest coffee producer, supplying about 30 per cent of international demand, that would have immediate and far-reaching consequences.

Modiano's action was part of a broader case he had brought against the IBC arguing that its export regulations were forbidden under the seven-month-old constitution.

The IBC said it was unconcerned by the case. Mr Bernardo Roma, the institute spokesman, said: "There is nothing very special about this. Modiano has raised a constitutional question just to get publicity. We are not worried."

# Britain's potato board trims its budget

By Bridget Bloom, Agriculture Correspondent

BRITAIN'S POTATO Marketing Board has announced budget cuts of £1m in advance of the findings of a government review into its operations.

The savings, which amount to some 12.5 per cent of its total budget, are to come mainly from staff cuts and other administrative charges. Seven area offices have been closed, while savings of £630,000 are being made from staff redundancies.

Mr William Sprigge, chief executive, said yesterday that the Government's review of the Board's future had provided "the stimulus for us to get to grips with administrative costs."

The Government announced last September that it would not provide funds for the organisation of the country's potato market after 1991, a move which could bring abolition of the Board itself. Mr John MacGregor, Minister of Agriculture,said last month that a decision would probably be announced by the end of May.

The UK is the only European Community country to manage its potato market, principally through of an area quota system operated by the Board. Some 6m to 7m tonnes are grown each year, worth about £500m.

The Government's move has split the industry, with the Board wanting a continuation of the present system. However, the Potato Processors' Association, which buys about 30 per cent of the crop, advocates a free market.

In its consultation paper last September, the agriculture ministry suggested three alternatives to the present arrangement: abolition of the Board; abolition of the acreage controls on potatoes grown; or a variant of the present system with industry-wide funding.

● The Ministry of Agriculture yesterday urged everyone, "from importer to consumer," to keep a look out for colorado beetles. The warning was issued after two live specimens of the insects, which could pose a serious threat to potato crops, were found on imported evegetables.

# Gold 'battered' by forward sales

By Kenneth Gooding, Mining Correspondent

FORWARD SALES and gold loans by the mining industry have become so important they should be considered as much a part of total gold supply as mined production, disbaording by investors or scrap.

This is the view of American Precious Metals Advisors, the New York consultancy group, which, in a review of the gold market, points out that in 1988 the biggest incremental increase in supply last year was provided by forward sales and gold loans.

Mr Jeffrey Nichols, APMA's managing director, calculates that during 1988 these transactions brought forward into current-year supply some 15m troy ounces (467 tonnes) of gold that had not yet been mined, "and in some cases will not be mined until the mid-1990s."

Forward sales and loans contributed only 3.5m ounces (109 tonnes) to supply in 1987 so the incremental supply last year was 11.5m ounces (358 tonnes).

"This influx of metal, much of which was borrowed from the central banks and bullion dealers, battered the market and contributed to the sharp price decline that characterised the past year," he says.

"Importantly, many analyses of the gold market fail to account, statistically as well as qualitatively, for this relatively new source of supply and, as a consequence, underestimate total available supply in 1988 and 1989."

Mr Nichols expects gold loans and forward sales this year to be "less of a depressant" and to fall to about 8.5m ounces (265 tonnes).

He puts forward a number of reasons: the big growth in new production between 1988 and 1993 has already been hedged or pledged to repay gold loans; those mining companies that have been active hedgers are unlikely to sell greater percentages of future production now that they have assured themselves minimum cash flows during the next few years; and the number of new projects in need of financing is diminishing.

The APMA review says total supply of gold from all sources last year was a record 83.2m ounces (2,580 tonnes), an increase of nearly 16m ounces from 1987 which "helps to explain the persistent price weakness in the price of gold throughout 1988."

Total supply in 1989 is forecast to decline slightly to between 78m and 79m ounces (about 2,445 tonnes).

However, this should give little help to the gold price unless there is a revival of investor interest in north America and western Europe because total supply in 1989 is still likely to be significantly higher than any year prior to 1988.

Mr Nichols says the gold price "could move sharply higher when demand recovers in Europe and America" but he can give no indication about the timing.

"In the meantime, the continuing aggressive demand from the Far East should mitigate episodes of price weakness, at least in duration if not in magnitude."

● The price of gold could fall back to $325 to $350 a troy ounce during the "traditional summer doldrums" this year at which level marginal producers everywhere would be in trouble, suggests Kitcat & Aitken, the securities group, in a major study of the gold market.

"Sentiment being what it is, we would not be surprised to see a bout of panic as the doom merchants begin to call bullion below $300, were a number of very respectable middle-range producers could be threatened into the bargain," say Mr Michael Coulson and Mr Charles Kernot, authors of the study.

However, they look for a recovery in the gold price in the autumn which would take it above $400 an ounce again and give an average for the year of $380. This, they point out, "when compared with last year's figure of $436 must constitute a most disappointing prospect."

# Foreigners fund Ghana's revival

**William Keeling** on efforts to reverse the gold industry's decline

KOFI FORSON sits disconsolate beside his house. "This ground is rich in gold," he exclaims, but there is no satisfaction in his voice. The land is not his, and even if it was he could not afford $1,000 for the water pump needed to work work it effectively.

Mr Forson is a traditional miner working the river-beds beside his home-town of Akim Pameng in Ghana. But in his drive to boost returns from the gold mining sector the Accra Government is looking to foreign investors, not to the "galam say", as the traditional miners are known.

Attracted by the increasing liberalisation of the Ghanaian economy Shefford Resources, a private Canadian-managed company, has leased from the Government an 85 sq km mining concession at Akim Pameng, from which it should produce up to 40,000 troy ounces a year over its projected ten-year productive life.

The company is far from being an industrial ogre and during its operations it intends to reclaim swamp land for local agricultural use. That has cut little ice, however, with the galam say, who have made clear their intention to continue operating in the area.

In fact their numbers have risen dramatically following the publication in the government newspaper of an editorial eulogising over the concession's potential.

Prior to that piece there were a couple of dozen galam say in the area, now there are more than 400.

Ironically, such publicity for the gold-sector is part of the Government's drive to attract foreign investment into the country under its economic recovery programme.

The industry has suffered a long-term decline. In the 1930s more than 40 mines were operating in Ghana; by 1970 there were only four. Three of these are currently operated by the State Gold Mining Corporation (wholly-owned by the Government), which has presided over a fall in production from 200,000 ounces in 1973 to 40,000 a decade later. The fourth is the Ashanti Goldfields Corporation (split 55:45 between the Government and Lonrho) which since its foundation in 1895 has mined over 600 tonnes of gold from ore averaging 0.65 ounces per tonne.

To create an environment for the sector's expansion the Government has introduced new mining legislation and an incentive package for investors. Over the past three years 70 prospecting licences have been issued (a third to predominantly foreign-owned companies) and four mining leases have been granted, Shefford Resources being one recipient.

The other three are: Teberebie Goldfields, which aims to produce 60,000 ounces a year; Southern Cross, which plans to double the present annual production of 30,000 ounces and estimates the potential of its site at 100,000 ounces a year; and Canadian Bogosu Resources, the largest of the new companies, which should produce in excess of 100,000 ounces a year starting in the first quarter of 1990. Canadian Bogosu is a joint venture between Sikaman Gold Resources of Toronto and Billiton Metals (wholly owned by Shell).

Southern cross poured its first doré bar in May 1988, the first gold from a new mine in Ghana since the Second World War.

For the present the operators are all concentrating on surface-mining, although ultimately the potential is in deep ground – Canadian Bogosu has plans to take ramps down to a depth of 300 metres.

Dr Robert J. Griffis, director of Sikaman, considers Ghana as "probably the most neglected gold-mining area in the world... but the key thing was whether you could recommend foreign visitors to come in and spend their money." Total capital expenditure in Canadian Bogosu so far totals $85m.

Equally determined to exploit the new investment climate is the Ashanti Goldfields Corporation which began a $160m expansion and rehabilitation programme in 1983, funded in part by the International Finance Corporation and the Standard Chartered merchant bank. Production increased from a low of 243,000 ounces in 1983 to 305,000 ounces last year, and for 1989 it is estimated at 348,000 ounces.

Expansion plans include a sub-surface vertical shaft system, which will effectively double the depth of the 3,500 ft Cappendel shaft opened last year, and the completion of the 5,200 ft Kwesi Mensah shaft.

To meet increased production targets finances are being sought for a new processing plant to come on line in five years time. In addition the company has begun reclaiming 20m tonnes of tailings at a rate of 2,000 tonnes a day (to be doubled by 1990) and a new "heap-leaching" site, designed to process 100,000 tonnes of low grade ore a month, will begin operation in the first quarter of this year.

The Ghanaian gold-industry is very much on the up with estimated national production of 1m ounces in five years time and a possible 2m by the turn of the century.

Sadly, however, it is difficult to envisage any linkage between the new investors and the mass of the galam-say. A company such as Canadian Bogosu expects only to hire a workforce of 500 and many of these will have to be skilled machine-operators.

Though a new law has been passed allowing individuals concessions of up to five acres, the galam say will still need finance beyond their means if they are to operate effectively and safely. When tax revenue starts rolling in from the foreign companies working on "their" land, it is to the Government that they will be looking for their share of this newly-won wealth.

## WORLD COMMODITIES PRICES

## LONDON MARKETS

COPPER prices fell sharply on the LME yesterday. Bearish news included a rise of 17,175 tonnes in LME warehouse stocks to 131,275 tonnes – a two-year high. Island Copper in British Columbia reached a tentative agreement on a new two-year contract with its workers; coming labour contract talks at Asarco and Magma are also expected to be concluded without resort to industrial action. An opening fall on Comex pushed prices lower in the afternoon on liquidation, fresh selling and increased pressure from lending (selling cash metal and buying forward). Slack physical offtake suggests the market is still on course to test the four-month low of $2,720 a tonnereached in mid-February this year, analysts said. Coffee prices advanced, with nearby May dragging other months up with it in the absence of any major fresh factors.

**SPOT MARKETS**

| Crude oil (per barrel FOB) | | + or - |
|---|---|---|
| Dubai | $14.95-5.15q | -0.40 |
| Brent Blend | $17.80-7.90q | -0.55 |
| W.T.I. (1 pm est) | $19.62-9.67q | -0.60 |
| **Oil products** (NWE prompt delivery per tonne CIF) | | + or - |
| Premium Gasoline | $270-272 | -3 |
| Gas Oil | $144-146 | -2.5 |
| Heavy Fuel Oil | $84-85 | -2.5 |
| Naphtha | $173-175 | -1 |
| *Petroleum Argus Estimates* | | |
| **Other** | | + or - |
| Gold (per troy oz)♣ | $377.50 | +1.75 |
| Silver (per troy oz)♣ | 561c | +1 |
| Platinum (per troy oz) | $533.1 | +0.6 |
| Palladium (per troy oz) | $180.6 | +5.0 |
| Aluminium (free market) | $2350 | +85 |
| Copper (US Producer) | 138⅝-143c | +½ |
| Lead (US Producer) | 36.0c | |
| Nickel (free market) | 615c | +5 |
| Tin (European free market) | £10515.0 | +27.5 |
| Tin (Kuala Lumpur market) | 27.98r | |
| Tin (New York) | 477.5c | -4.0 |
| Zinc (US Prime Western) | 87¼c | |
| Cattle (live weight)† | 115.19p | -2.84* |
| Sheep (dead weight)† | 257.57p | -0.23* |
| Pigs (live weight)† | 87.96p | -0.13* |
| London daily sugar (raw) | $305u | -1 |
| London daily sugar (white) | $346u | |
| Tate and Lyle export price | £294.0 | -0.5 |
| Barley (English feed) | £104.25w | -1.25 |
| Maize (US No. 3 yellow) | £134.5 | |
| Wheat (US Dark Northern) | £126.75u | |
| Rubber (spot)♥ | 56.75p | +0.25 |
| Rubber (Jun)♥ | 64.75p | +0.25 |
| Rubber (Jul)♥ | 64.75p | +0.25 |
| Rubber (KL RSS No 1 Jun) | 285m | |
| Coconut oil (Philippines)§ | $580u | |
| Palm Oil (Malaysian)§ | $410u | |
| Copra (Philippines)§ | $370 | |
| Soyabeans (US) | £203 | |
| Cotton "A" index | 77.05c | +0.10 |
| Wooltops (64s Super) | 618p | |

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. v-Jun/Jul. u-May/Jun. q-Jun. x-Apr/May. w-Aug. z-May. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

**COCOA** £/tonne

| | Close | Previous | High/Low |
|---|---|---|---|
| May | 695 | 707 | 695 690 |
| Jul | 710 | 720 | 720 701 |
| Sep | 729 | 737 | 730 720 |
| Dec | 771 | 779 | 772 764 |
| Mar | 769 | 773 | 768 759 |
| May | 776 | 779 | 775 765 |
| Jul | 790 | 792 | 790 782 |

Turnover:11771 (4024) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 5: 935.84 (931.51) :10 day average for May 8: 951.60 (966.42)

**COFFEE** £/tonne

| | Close | Previous | High/Low |
|---|---|---|---|
| May | 1210 | 1174 | 1210 1179 |
| Jly | 1127 | 1114 | 1130 1118 |
| Sep | 1072 | 1066 | 1077 1067 |
| Nov | 1052 | 1044 | 1056 1050 |
| Jan | 1052 | 1040 | 1058 1050 |
| Mar | 1052 | 1038 | 1050 |
| May | 1062 | 1038 | 1050 |

Turnover:2257 (2354) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 5 : Comp. daily 113.94 (114.46). 15 day average 117.43 (117.71)

**SUGAR** ($ per tonne)

| Raw | Close | Previous | High/Low |
|---|---|---|---|
| Aug | 276.40 | 275.60 | 276.40 272.00 |
| Oct | 275.00 | 274.00 | 275.20 271.00 |
| Dec | 276.00 | 273.00 | 270.00 |
| Mar | 256.80 | 254.80 | 266.60 262.60 |
| May | 265.00 | 263.60 | 263.00 |
| **White** | **Close** | **Previous** | **High/Low** |
| Aug | 343.20 | 341.00 | 343.00 338.10 |
| Oct | 329.00 | 327.00 | 327.50 326.00 |
| Dec | 324.50 | 322.50 | 320.00 |
| Mar | 316.00 | 315.00 | 315.00 313.50 |
| May | 315.00 | 312.50 | 313.00 311.50 |

Turnover: Raw 1411 (1614) lots of 50 tonnes. White 347 (716).
Paris- White (FFr per tonne): Aug 2066, Oct 2090, Dec 2040, Mar 2005, May 1990, Aug 1975.

**CRUDE OIL** $/barrel

| | Close | Previous | High/Low |
|---|---|---|---|
| Jun | 17.86 | 18.48 | 18.21 17.78 |
| Jul | 17.15 | 17.70 | 17.48 17.10 |
| Aug | 16.72 | 17.18 | 16.98 16.65 |
| IPE Index | 18.52 | 18.68 | |

Turnover: 4834 (3215)

**GAS OIL** $/tonne

| | Close | Previous | High/Low |
|---|---|---|---|
| May | 143.75 | 146.00 | 144.25 142.50 |
| Jun | 140.50 | 143.00 | 141.50 139.50 |
| Jul | 140.25 | 142.75 | 140.75 139.50 |
| Aug | 141.25 | 143.75 | 141.50 140.50 |
| Sep | 142.00 | 144.00 | 142.25 141.00 |
| Oct | 143.25 | 144.00 | 142.25 142.25 |
| Nov | 143.75 | 145.50 | 144.25 143.50 |
| Dec | 146.50 | 148.25 | 146.00 145.75 |

Turnover 7509 (4881)lots of 100 tonnes

**TEA**
There were 14,653 packages on offer including 1,000 offshore, reports the Tea Brokers' Association. A good demand prevailed. Best liquoring East Africans ruled firm while coloury mediums were again a strong feature and often 5-10p higher though the market was more hesitant by the close. Lesser sorts remained steady with dusts irregular. Central Africans were well supported but were generally 2-3p lower except for selected brighter lines. Ceylons sold well with prices following quality. Offshore teas met good demand at firm to dearer rates. Quotations: quality 190p, *medium 108p, low medium 88p.*

**LONDON METAL EXCHANGE** (Prices supplied by Amalgamated Metal Trading)

| | Close | Previous | High/Low | AM Official | Kerb close | Open interest |
|---|---|---|---|---|---|---|
| **Aluminium, 99.7% purity ($ per tonne)** | | | | | | Ring turnover 18,125 tonne |
| Cash | 2345-55 | 2285-95 | 2350 | 2345-55 | | |
| 3 months | 2175-80 | 2151-3 | 2195/2160 | 2175-7 | 2175-80 | 34,833 lots |
| **Copper, Grade A (£ per tonne)** | | | | | | Ring turnover 32,500 tonne |
| Cash | 1676-8 | 1744-6 | 1698/1695 | 1698-9 | | |
| 3 months | 1654-5 | 1721-2 | 1705/1656 | 1678-9 | 1665-6 | 71,442 lots |
| **Silver (US cents/fine ounce)** | | | | | | Ring turnover 0 ozs |
| Cash | 557-60 | 554-7 | | 555-6 | | |
| 30 June | 561-4 | 561-4 | | 562.5-3.5 | | 354 lots |
| **Lead (£ per tonne)** | | | | | | Ring turnover 8,950 tonne |
| Cash | 374-6 | 371-3 | 378.5 | 578.5-9 | | |
| 3 months | 371-2 | 369-70 | 375/370 | 374.5-5 | 370-1 | 8,338 lots |
| **Nickel ($ per tonne)** | | | | | | Ring turnover 1,578 tonne |
| Cash | 13775-800 | 13750-800 | 13800/13700 | 13650-700 | | |
| 3 months | 13600-50 | 13500-50 | 13650/13500 | 13550-70 | 13650-700 | 7,481 lots |
| **Zinc, Special High Grade ($ per tonne)** | | | | | | Ring turnover 6,150 tonne |
| Cash | 1710-20 | 1700-5 | 1712/1710 | 1715-8 | | |
| 3 months | 1610-20 | 1635-40 | 1630/1620 | 1630-3 | 1610-20 | 11,072 lots |
| **Zinc ($ per tonne)** | | | | | | Ring turnover 3,200 tonne |
| Cash | 1615-20 | 1645-55 | | 1620-5 | | |
| 3 months | 1580-5 | 1575-85 | 1567/1550 | 1567-70 | 1555-65 | 11,801 lots |

**POTATOES** £/tonne

| | Close | Previous | High/Low |
|---|---|---|---|
| May | 167.5 | 169.0 | 166.0 158.0 |
| Nov | 90.5 | 92.0 | 92.0 90.0 |
| Feb | 99.5 | 99.0 | 98.0 |
| Apr | 149.0 | 147.5 | 150.0 145.6 |
| May | 164.0 | 162.5 | 162.0 |

Turnover 273 (303) lots of 40 tonnes.

**SOYABEAN MEAL** £/tonne

| | Close | Previous | High/Low |
|---|---|---|---|
| Jun | 160.00 | 160.00 | 159.00 |
| Aug | 153.50 | 155.00 | |
| Oct | 153.50 | 153.50 | 153.50 153.00 |
| Dec | 155.00 | 156.00 | 155.00 |

Turnover 43 (26)lots of 20 tonnes.

**FREIGHT FUTURES** $10/index point

| | Close | Previous | High/Low |
|---|---|---|---|
| May | 1680 | 1678 | 1686 1672 |
| Jun | 1613 | 1621 | 1630 1615 |
| Jul | 1467 | 1460 | 1482 1467 |
| Oct | 1562 | 1565 | 1568 1560 |
| Jan | 1594 | 1591 | 1594 |
| Apr | 1610 | 1605 | 1610 |
| BFI | 1699 | 1693 | |

Turnover 220 (376)

**GRAINS** £/tonne

| Wheat | Close | Previous | High/Low |
|---|---|---|---|
| May | 117.25 | 115.60 | 117.25 116.50 |
| Jun | 118.50 | 117.25 | 118.50 117.50 |
| Sep | 104.90 | 105.10 | 105.00 104.90 |
| Nov | 107.15 | 107.30 | 107.20 107.10 |
| Jan | 110.20 | | 110.10 |
| Mar | 113.15 | | 113.00 |
| May | 116.26 | | 116.20 116.10 |
| **Barley** | **Close** | **Previous** | **High/Low** |
| May | 108.40 | 108.15 | 108.50 |
| Sep | 102.75 | 102.75 | 102.75 102.60 |
| Nov | 105.55 | 105.60 | 105.40 |

Turnover: Wheat 90 (93), Barley 17 (12).
Turnover lots of 100 tonnes.

**PIGS** (Cash Settlement) p/kg

| | Close | Previous | High/Low |
|---|---|---|---|
| Jun | 111.0 | 110.0 | |
| Aug | 108.0 | 107.5 | 107.5 107.0 |
| Oct | 110.5 | 110.0 | 110.0 |
| Nov | 111.3 | 111.3 | 111.0 |

Turnover 20 (12) lots of 3,250 kg

**LONDON BULLION MARKET**

| Gold (fine oz) | $ price | £ equivalent |
|---|---|---|
| Close | 377¼-377¾ | 225½-226¼ |
| Opening | 377-377½ | 225-225½ |
| Morning fix | 377.15 | 225.218 |
| Afternoon fix | 378.25 | 225.74 |
| Day's high | 379-379½ | |
| Day's low | 377-377½ | |

| Coins | $ price | £ equivalent |
|---|---|---|
| Mapleleaf | 388-393 | 232-235 |
| Britannia | 388-393 | 232-235 |
| US Eagle | 388-393 | 232-235 |
| Angel | 387-392 | 231¼-234¼ |
| Krugerrand | 376-379 | 225-227 |
| New Sov. | 88½-89½ | 53-53¼ |
| Old Sov. | 88½-89½ | 53-53¼ |
| Noble Plat | 534.15-543.65 | 318.8-324.45 |

| Silver fix | p/fine oz | US cts equiv |
|---|---|---|
| Spot | 334.50 | 560.10 |
| 3 months | 345.10 | 573.95 |
| 6 months | 356.20 | 588.45 |
| 12 months | 377.35 | 616.90 |

**LONDON METAL EXCHANGE TRADED OPTIONS**

| Aluminium (99.7%) | Calls | | Puts | |
|---|---|---|---|---|
| Strike price $ tonne | Jul | Sep | Jul | Sep |
| 2000 | 343 | 189 | 23 | 116 |
| 2200 | 196 | 104 | 75 | 226 |
| 2400 | 99 | 52 | 173 | 367 |
| **Copper (Grade A)** | **Calls** | | **Puts** | |
| 2650 | 180 | 177 | 58 | 113 |
| 2750 | 122 | 130 | 99 | 163 |
| 2850 | 79 | 93 | 153 | 222 |

**LONDON FOX TRADED OPTIONS**

| Coffee | Jul | Sep | Jul | Sep |
|---|---|---|---|---|
| 1000 | 128 | 96 | 3 | 25 |
| 1050 | 86 | 65 | 11 | 44 |
| 1100 | 51 | 41 | 26 | 70 |
| **Cocoa** | **Jul** | **Sep** | **Jul** | **Sep** |
| 650 | 64 | 86 | 5 | 7 |
| 700 | 86 | 65 | 11 | 44 |
| 750 | 51 | 41 | 26 | 70 |

## US MARKETS

IN THE METALS, copper prices plunged as the days most active market, reports Drexel Burnham Lambert. A sudden rise in LME copper stocks (17,175), prompted the heavy selling. This is the highest level in two years. Gold prices were steady on early short covering, but fell later on trade selling. Commission house profit taking kept silver steady. In the softs, speculative selling sent cocoa prices lower. A correction was seen in the coffee market as prices closed up. Sugar gained slightly in slow trading. The livestocks featured higher belly and hog prices as short covering on firm fundamentals and an expected seasonal decline in hogruns weighed on the market. Cattle futures were mixed in sideways action. In the grains, weather related selling put pressure on corn futures. Commercial selling late in the day weakened the soybean market. Bean oil futures rallied on news of Russian tender activity. Orange juice futures posted sharp gains on news of Florida raising prices. The energy complex was lower on carryover selling from Friday and news of OPEC over-production. June crude oil sank below the 20 dollar level.

## New York

**GOLD** 100 troy oz.; $/troy oz.

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| May | 376.9 | 377.7 | 378.5 | 378.5 |
| Jun | 378.4 | 379.3 | 381.4 | 378.5 |
| Jul | 380.4 | 381.3 | 0 | 0 |
| Aug | 382.6 | 383.4 | 385.7 | 381.0 |
| Oct | 387.2 | 388.0 | 390.3 | 386.4 |
| Dec | 391.6 | 392.4 | 394.3 | 390.0 |
| Feb | 396.0 | 396.8 | 0 | 0 |
| Apr | 400.2 | 401.0 | 0 | 0 |
| Jun | 404.5 | 405.3 | 407.5 | 407.5 |

**PLATINUM** 50 troy oz; $/troy oz.

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Jul | 539.0 | 535.9 | 540.5 | 536.0 |
| Oct | 536.5 | 533.4 | 537.5 | 534.0 |
| Jan | 538.0 | 534.4 | 536.0 | 535.0 |
| Apr | 540.0 | 536.4 | 0 | 0 |

**SILVER** 5,000 troy oz; cents/troy oz.

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| May | 558.8 | 559.8 | 562.5 | 556.0 |
| Jun | 562.3 | 563.3 | 0 | 0 |
| Jul | 567.7 | 568.7 | 572.5 | 566.0 |
| Sep | 577.7 | 578.7 | 582.0 | 576.6 |
| Dec | 591.7 | 592.7 | 596.0 | 590.1 |
| Jan | 596.2 | 597.2 | 0 | 0 |
| Mar | 605.7 | 606.7 | 609.0 | 606.0 |
| May | 615.4 | 616.4 | 0 | 0 |
| Jul | 625.2 | 626.2 | 630.5 | 630.5 |
| Sep | 635.4 | 636.4 | 0 | 0 |

**INDICES**

**REUTERS** (Base: September 18 1931 = 100)

| May 5 | May 4 | mnth ago | yr ago |
|---|---|---|---|
| 2015.7 | 2005.1 | 2012.3 | 1733.6 |

**DOW JONES** (Base: Dec. 31 1974 = 100)

| | | | | |
|---|---|---|---|---|
| Spot | 137.71 | 137.53 | 136.68 | 129.05 |
| Futures | 137.33 | 137.75 | 137.67 | 132.60 |

**COPPER** 25,000 lbs; cents/lbs

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| May | 125.90 | 130.30 | 128.50 | 125.25 |
| Jun | 122.10 | 127.30 | 121.80 | 121.80 |
| Jul | 121.80 | 125.30 | 123.45 | 120.70 |
| Sep | 119.00 | 122.00 | 120.70 | 118.25 |
| Dec | 116.00 | 118.70 | 117.75 | 115.50 |

**CRUDE OIL** (Light) 42,000 US galls $/barrel

| | Latest | Previous | High/Low | |
|---|---|---|---|---|
| Jun | 19.49 | 20.02 | 19.88 | 19.45 |
| Jul | 18.54 | 19.06 | 18.98 | 18.60 |
| Aug | 18.07 | 18.45 | 18.40 | 18.02 |
| Sep | 17.75 | 18.09 | 18.03 | 17.72 |
| Oct | 17.58 | 17.85 | 17.85 | 17.52 |
| Nov | 17.39 | 17.66 | 17.58 | 17.37 |
| Dec | 17.25 | 17.48 | 17.48 | 17.25 |
| Jan | 17.19 | 17.31 | 17.40 | 17.19 |
| Feb | 17.15 | 17.20 | 17.20 | 17.15 |
| Mar | 17.00 | 17.10 | 17.10 | 17.00 |

**HEATING OIL** 42,000 US galls, cents/US galls

| | Latest | Previous | High/Low | |
|---|---|---|---|---|
| Jun | 4670 | 4737 | 4765 | 4640 |
| Jul | 4605 | 4674 | 4700 | 4590 |
| Aug | 4660 | 4729 | 4768 | 4645 |
| Sep | 4740 | 4804 | 4830 | 4720 |
| Oct | 4820 | 4879 | 4895 | 4800 |
| Nov | 4895 | 4954 | 4955 | 4880 |
| Dec | 4970 | 5029 | 5055 | 4970 |
| Mar | 4850 | 4914 | 4875 | 4850 |

**COCOA** 10 tonnes;$/tonnes

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| May | 1210 | 1229 | 1215 | 1210 |
| Jul | 1153 | 1180 | 1168 | 1147 |
| Sep | 1162 | 1184 | 1171 | 1160 |
| Dec | 1175 | 1188 | 1180 | 1170 |
| Mar | 1175 | 1188 | 1178 | 1172 |
| May | 1190 | 1193 | 1189 | 1180 |
| Jul | 1153 | 1180 | 1168 | 1147 |
| Sep | 1224 | 1228 | 1230 | 1220 |

**COFFEE "C"** 37,500lbs; cents/lbs

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| May | 138.50 | 136.44 | 138.60 | 137.45 |
| Jul | 129.22 | 127.60 | 129.50 | 128.30 |
| Sep | 123.09 | 121.40 | 123.35 | 122.25 |
| Dec | 119.00 | 117.44 | 119.25 | 118.25 |
| Mar | 117.28 | 116.17 | 118.00 | 117.00 |
| May | 117.50 | 116.50 | 0 | 0 |
| Jul | 118.26 | 117.29 | 0 | 0 |
| Sep | 116.00 | 117.13 | 0 | 0 |

**SUGAR WORLD "11"** 112,000 lbs; cents/lbs

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Jul | 12.45 | 12.32 | 12.47 | 12.15 |
| Oct | 12.36 | 12.29 | 12.36 | 12.12 |
| Jan | 11.74 | 12.18 | 11.68 | 11.68 |
| Mar | 11.96 | 11.88 | 11.96 | 11.76 |
| Jul | 11.83 | 11.78 | 0 | 0 |
| Oct | 11.75 | 11.68 | 11.74 | 11.65 |

**COTTON** 50,000; cents/lbs

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| May | 67.71 | 67.65 | 68.20 | 67.50 |
| Jul | 67.29 | 67.15 | 67.44 | 66.80 |
| Oct | 68.10 | 68.10 | 68.29 | 67.70 |
| Dec | 67.96 | 67.83 | 68.05 | 67.63 |
| Mar | 68.25 | 68.20 | 68.26 | 68.00 |
| May | 68.55 | 68.55 | 68.55 | 68.30 |
| Jul | 68.70 | 68.50 | 68.50 | 68.50 |

**ORANGE JUICE** 15,000 lbs; cents/lbs

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| May | 190.60 | 187.05 | 191.00 | 189.00 |
| Jul | 192.60 | 188.70 | 193.95 | 190.90 |
| Sep | 198.60 | 184.85 | 187.50 | 186.00 |
| Nov | 175.00 | 172.25 | 176.00 | 173.50 |
| Jan | 169.60 | 167.00 | 169.66 | 167.80 |
| Mar | 169.60 | 166.80 | 169.75 | 167.60 |
| May | 169.10 | 166.40 | 0 | 0 |
| Jul | 169.10 | 166.40 | 0 | 0 |
| Sep | 169.10 | 166.40 | 0 | 0 |

## Chicago

**SOYABEANS** 5,000 bu min; cents/60lb bushel

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| May | 764/4 | 759/4 | 767/0 | 757/0 |
| Jul | 753/2 | 757/4 | 757/4 | 752/0 |
| Aug | 748/2 | 753/4 | 753/0 | 747/4 |
| Sep | 726/0 | 737/0 | 735/0 | 724/4 |
| Nov | 715/4 | 728/2 | 727/0 | 715/0 |
| Jan | 724/2 | 735/4 | 733/4 | 724/0 |
| Mar | 733/0 | 743/0 | 741/4 | 733/0 |
| May | 741/0 | 746/0 | 747/0 | 741/0 |

**SOYABEAN OIL** 60,000 lbs; cents/lb

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| May | 23.78 | 23.39 | 23.90 | 23.34 |
| Jul | 24.24 | 23.92 | 24.44 | 23.87 |
| Aug | 24.51 | 24.15 | 24.66 | 24.13 |
| Sep | 24.70 | 24.40 | 24.90 | 24.34 |
| Oct | 24.85 | 24.60 | 25.00 | 24.60 |
| Dec | 25.23 | 24.92 | 25.40 | 24.90 |
| Jan | 25.40 | 25.00 | 25.45 | 25.25 |
| Mar | 25.95 | 25.55 | 25.90 | 26.00 |

**SOYABEAN MEAL** 100 tons; $/ton

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| May | 223.5 | 227.1 | 226.5 | 223.0 |
| Jul | 223.5 | 226.8 | 226.8 | 223.0 |
| Aug | 220.7 | 224.3 | 223.5 | 220.5 |
| Sep | 216.3 | 221.7 | 223.0 | 216.2 |
| Oct | 212.8 | 217.5 | 218.0 | 212.7 |
| Dec | 210.8 | 216.2 | 217.0 | 210.7 |
| Jan | 211.0 | 216.2 | 214.5 | 211.0 |
| Mar | 210.0 | 214.5 | 217.0 | 210.0 |

**MAIZE** 5,000 bu min; cents/56lb bushel

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| May | 279/4 | 280/4 | 281/6 | 279/0 |
| Jul | 275/2 | 277/0 | 277/6 | 275/0 |
| Sep | 265/4 | 267/0 | 267/6 | 265/4 |
| Dec | 262/2 | 264/2 | 264/2 | 262/0 |
| Mar | 268/6 | 271/0 | 270/0 | 268/4 |
| May | 270/0 | 272/4 | 272/2 | 270/0 |
| Jul | 272/0 | 274/6 | 274/4 | 272/0 |

**WHEAT** 5,000 bu min; cents/60lb-bushel

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| May | 436/0 | 437/0 | 440/6 | 433/4 |
| Jul | 418/4 | 419/2 | 421/0 | 416/2 |
| Sep | 424/4 | 425/2 | 426/6 | 422/0 |
| Dec | 435/6 | 437/0 | 439/0 | 434/0 |
| Mar | 440/4 | 441/4 | 441/6 | 438/0 |
| May | 430/4 | 430/0 | 430/6 | 428/0 |

**LIVE CATTLE** 40,000 lbs; cents/lbs

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Jun | 72.15 | 72.42 | 72.70 | 72.05 |
| Aug | 68.27 | 68.55 | 68.80 | 68.17 |
| Sep | 68.40 | 68.70 | 68.70 | 68.40 |
| Oct | 69.77 | 70.02 | 70.20 | 69.67 |
| Dec | 71.05 | 71.37 | 71.50 | 70.85 |
| Feb | 71.75 | 71.95 | 72.00 | 71.55 |
| Jun | 72.20 | 72.30 | 72.20 | 72.00 |

**LIVE HOGS** 30,000 lb; cents/lbs

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Jun | 47.82 | 47.27 | 47.90 | 47.40 |
| Jul | 48.37 | 48.00 | 48.40 | 48.10 |
| Aug | 46.95 | 46.82 | 47.10 | 46.62 |
| Oct | 43.70 | 43.60 | 43.80 | 43.60 |
| Dec | 45.52 | 45.40 | 45.60 | 45.35 |
| Feb | 46.55 | 46.70 | 46.70 | 46.56 |
| Apr | 44.80 | 44.90 | 44.95 | 44.55 |
| Jun | 47.57 | 47.57 | 47.80 | 47.58 |

**PORK BELLIES** 40,000 lbs; cents/lb

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| May | 32.02 | 30.96 | 32.05 | 31.45 |
| Jul | 31.65 | 30.97 | 31.90 | 31.30 |
| Aug | 31.42 | 30.66 | 31.55 | 31.15 |
| Feb | 47.27 | 46.82 | 47.45 | 46.95 |
| Mar | 46.40 | 46.20 | 46.60 | 46.40 |
| May | 47.50 | 47.30 | 47.50 | 47.30 |
| Jul | 47.80 | 47.80 | 0 | 0 |

# FINANCIAL TIMES SURVEY

The Channel Tunnel will provide a vital fixed link with Continental Europe for Britain's road and rail operators. But there are fears that insufficient transport infrastructure is being planned in the UK, says **Kevin Brown**, Transport Correspondent

## Pan-European vision dawns

THE CONSTRUCTION of the Channel Tunnel presents an opportunity for Britain to achieve a step-change in its physical links with Continental Europe.

So far, attention in the UK has concentrated on the environmental impact of rail traffic moving through London and Kent, and the survival prospects for the ferry companies operating cross-Channel ferry services from Dover.

But the real importance of the tunnel is that it will allow the UK to take part in a resurgence of railway operations which is going on throughout western Europe.

Ironically, it was Sir Robert Reid, chairman of the British Railways Board, who brought the European dimension to public prominence earlier this year in his capacity as president of the Community of European Railways, (CER).

In a report presented by Sir Robert to the European Commission, the CER put forward plans for a network of high speed rail services linking most of Europe's major cities.

The proposals were drawn up by the CER, representing the 12 European Community railway authorities plus Switzerland and Austria, after the Commission failed to proceed with a plan put forward earlier by its own officials.

That lack of official enthusiasm has disappeared since the present Commission was appointed last year, and there is now substantial support for the proposals. Mr Karel van Miert, the Transport Commissioner, has set up a study of the implications, and there is talk among Commission officials of EC financial backing, possibly on environmental grounds.

Doubts remain, however, about the willingness and ability of the UK authorities to take full advantage of direct access to the European rail system.

In essence, the CER proposals are a means of co-ordinating separate plans for high speed operations in each of the member countries, varying from completely new lines to simple improvements of existing track.

The main traffic flows will run from north to south, linking the industrial heartlands of France, West Germany and Italy, which together account of 83 per cent of national passenger rail traffic in the CER countries.

Inevitably, therefore, the UK is seen by Continental railway authorities as a peripheral market, isolated by geography and history, which exists more or less independently of the rest of the European rail system.

There are also technical problems to be overcome,

**A resurgence of railway operations is going on throughout western Europe**

caused by the idiosyncratic power supply system on BR's Southern Region tracks, and the difference between the UK and Continental railway guages, which govern the size of trains.

(The UK has the same track guage — the distance between the wheels — as most of the rest of Europe, but a smaller loading guage. This means that Continental trains are wider and taller than their British counterparts, and would collide with most station platforms and tunnels.)

Some steps to bring the UK into the European mainstream have already been taken, notably the Anglo-French agreement to proceed with the tunnel and the approval of EC Transport Ministers for the so-called North European project, which will link London through the tunnel with Paris, Brussels, Amsterdam, Cologne and Frankfurt.

However, this can only be achieved by building a fleet of specially-designed UK-guage trains capable of running on the Southern region, where power is supplied through a live rail, rather from overhead power lines.

This problem will be partially solved when a dedicated high speed line is constructed between the UK portal of the Channel Tunnel near Folkestone and the twin London terminals at Waterloo and King's Cross.

However, there is a large question mark over the commercial viability of the high speed line, which is now expected to cost at least £4bn including interest charges, compared with initial BR estimates of around £1.2bn.

In addition, significant objections to the line remain on environmental grounds, and it is far from certain that the Bill authorising the construction of the line will pass through Parliament on schedule.

The effect of these problems is likely to be that the line will not open for use until the year 2000, seven years after the scheduled date of the first cross-Channel train.

The dedicated line will eventually ease the power supply problem, but the cross-Channel stock will still have to be capable of running on Southern Region's power supply because BR plans to use existing track for the last few miles into Waterloo.

Moreover, the line will not provide a solution to the loading guage problem since BR has no plans to upgrade track north and west of London to accept Continental guage trains.

Similar problems are emerging in the freight sector, where the potential for BR may be even greater than in the passenger market.

BR's Railfreight division has now abandoned earlier plans to marshall all trains at Willesden, in north London, but it is far from clear that its rather fluid replacement proposals will be adequate.

Mr Ian Brown, managing director of Railfreight Distribution, is now talking in terms of setting up a network of regional terminals from which dedicated trains would run direct to European destinations.

However, financing for most of these terminals remains to be settled, and the criteria for establishing them appears likely to be drawn in very restrictive terms.

Furthermore, Railfreight still intends to route all trains through Willesden, although not all will stop there. This means that all freight traffic will have to be routed through South London, where residential opposition is strong, rather than on the round-London route via Reading, Guildford and Redhill.

There are other serious problems, including the insistence of the Customs and Excise service that inland clearance depots should have a throughput of 30,000 clearances per year. This will militate against the establishment of new freight terminals with Customs clearance facilities unless terminals can be combined with other facilities such as airports. Meanwhile, the UK has only 22 ICDs, compared with 240 in France.

However, the most serious difficulty is the reluctance of BR to consider establishing Continental guage routes north of London, even though several proposals have been put forward for limited networks based on lines built with unusually generous clearances.

Much of the pressure for improved international rail links outside London has been coming from northern local authorities such as Leeds and Sheffield which are worried that the Channel Tunnel will drag new investment to the already overheated South East, thereby worsening the existing regional distortions in the UK economy.

Mr John Gunnell, chairman of the North of England Regional Consortium, an all-party grouping of northern local authorities, says much work still needs to be done to persuade BR of the need for additional investment in freight facilities in the north and northwest. Mr Gunnell also expresses serious doubts about BR's commitment to running through passenger services to the North.

There is some impressive support for this view. For example, Mr Russell Kilvington, director of Steer Davies & Gleave, the transport consultants, told a recent conference at Bradford University that "bold and imaginative decisions" were required if a worsening of the north/south divide was to be avoided.

"The whole of the UK is on the geographical fringe of Europe, and . regions such as the north of England are but peripheral parts of a peripheral country," Mr Kilvington said.

"The poorer the likely links to and from the tunnel are believed to be, then more inevitable becomes the choice of South east England as the preferred option. Worse still is that 'regions' (the word is used deliberately in a Europe-wide context), such as Belgium and Northern France, could become the second best options, with Wales, Scotland and the North of England some way behind."

This warning was echoed in recent research produced by the European arm of Nikko Securities, one of Japan's largest stockbrokers.

Nikko says the Channel Tunnel will increase the attractiveness of the UK to foreign investors, particularly the Japanese, who are attracted by familiarity with the language.

However, most investment is likely to be in the South-East, unless international companies choose to relocate in northern France, where property prices are significantly cheaper, Nikko concludes.

The French approach to planning for the Channel Tunnel has been very different to the piecemeal British process, which initially did not even envisage the construction of a dedicated high speed line for passengers.

The main impact in France will be on the depressed northern part of the country, and the ports of Boulogne and Calais, as well as as the heavy industrial city of Lille, are expecting a significant boost from tunnel related development.

The French Government and SNCF, the railway authority, were also quick to add a spur to the tunnel from the planned high speed Train a Grande Vitesse Nord, from Paris to Lille.

Mr Roger Vickerman, director of the Channel Tunnel research Unit at Kent University, says it is not inevitable that Belgium and northern France will have an advantage in attracting tunnel-related infrastructure.

However, Mr Vickerman points out that the Region Nord Pas de Calais developed a development strategy for the Channel Tunnel even before the official announcement of the project in 1986.

The Region has been willing to put its own funds into developing transport schemes designed to make it a major transport node for north-western Europe.

Equally, the planning-conscious French Government has been willing to invest in the TGV link and associated motorway projects such as the A26 and the Rocade Littoral, which runs down the French coast from the Belgian border to Rouen.

The French experience presents a strong contrast with the planning process in the UK, which has essentially been in the hands of British Rail and Eurotunnel as commercial organisations.

The UK Government's view was summed up by Mr Michael Portillo, the Transport Minister, who told the Town and Country Planning Association that "where the demand exists for services through the tunnel for a particular region, it will surely be in BR's commercial interest to satisfy that demand.

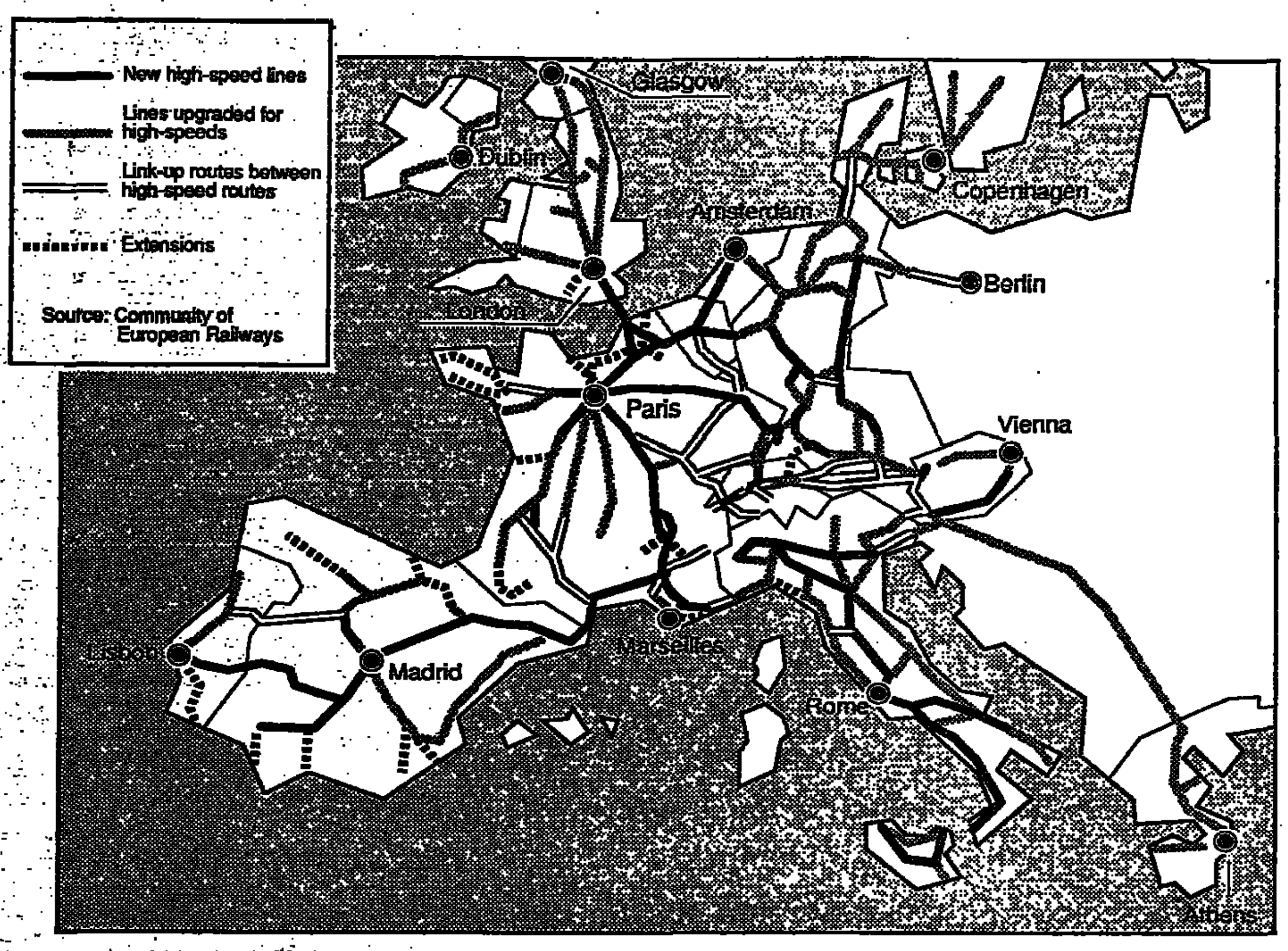
"Conversely, where insufficient demand exists, it is difficult to see why BR should be expected to provide a service."

Dr Chris Gossop, deputy director of the TCPA, says this illustrates a fundamental flaw in the UK approach, which is that infrastructure should not simply follow demand, but should be seen as a tool for creating it.

"The Government refuses to do anything more than consider the Channel Tunnel as a transport issue, and it has been pretty lamentable even on that front in terms of overall plan-

Continued on page 4

## Proposed European high-speed rail system




# The Future of Continental Transport Links

CONTENTS



Airlines are jostling for position to exploit wider horizons in 1992

## Flight into more competition

AIRLINES in Europe are positioning themselves for important changes in competition and in regulations affecting air travel over the next three to four years.

Europe is moving closer, with the development of the Channel tunnel fixed link between the United Kingdom and the Continent. By offering a new transport link, the Channel tunnel will stir a new ingredient into the competitive pressures between transport links with Europe that in any event will be given a fresh impetus with the formation of the single European market in 1992.

The market for passenger travel between the UK and Europe, across the Channel, is enormous. Yet more passengers travel across the North Sea. In 1985, the most recent period for comprehensive figures, 48.1m passengers trips were made across the Channel, using ferries and aircraft. Airlines accounted for 28m of these passenger trips, of which 6m, 13 per cent of the total, travelled between the UK and France, Belgium, Luxembourg and The Netherlands.

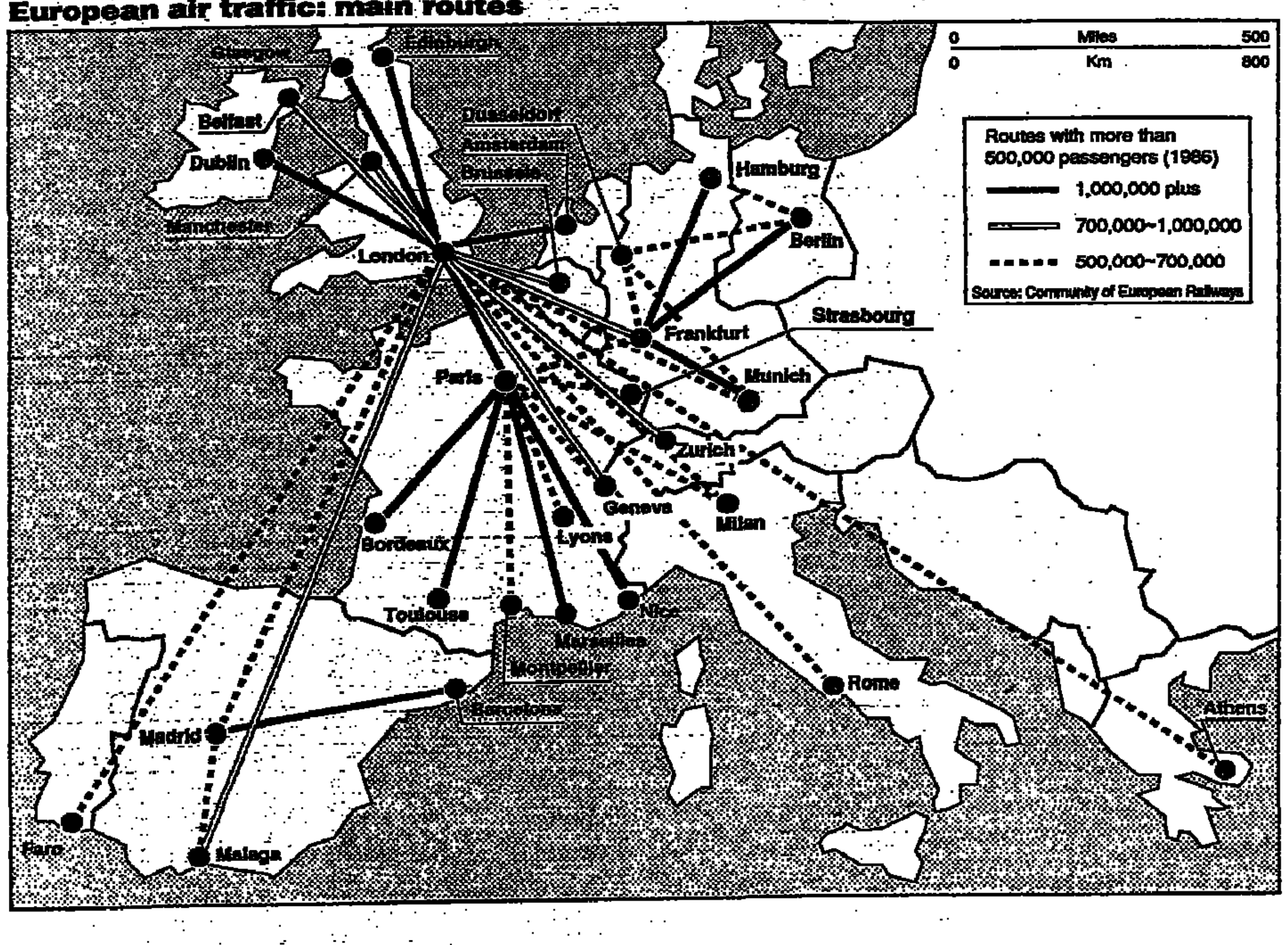
Eurotunnel, the operators of the Channel Tunnel, said in its prospectus it expected to attract a significant proportion of the present air travellers on these crucial routes between the UK and some of the main and some of the closest countries on the Continent.

By mid-1993, when the Channel tunnel is expected to start operations, Eurotunnel has forecast 29.7m passenger trips through the tunnel, on an annualised basis. This was a November 1987 forecast and is subject to updating. Eurotunnel has forecast that by 1993 the total UK-Europe cross-Channel market would increase to 67.1m passengers by 1993, to 93.6m by 2003 and to 118.7m by 2013. Of this market Eurotunnel expects to carry 46.6m passengers, almost the same as the present overall total passenger traffic on the Channel routes in 1985.

Air transport in Europe has failed to embrace unfettered competition, although on a few

Continued on page 4

**European air traffic: main routes**



**Kevin Brown** examines the scope for improving links with Europe's emerging high speed rail network

# Questions remain over shorter journey times

THE ADVERTISEMENTS say it all: London to Paris or Brussels in under three hours; Amsterdam in less than five; Frankfurt in less than seven.

The Channel Tunnel will link Britain to the emerging European high speed railway network for the first time, cutting hours off the journey time between major cities.

Or will it?

Three years after the UK and French governments gave the go-ahead for construction to start, and just four years before the first trains are due to run, there are doubts about whether the UK is putting the supporting infrastructure in place to reap the maximum benefit.

The conventional wisdom among railway authorities is that rail can best compete with road and air transport over distances of between 200km and 1,000km; outside these parameters potential customers are likely to choose either the personal mobility of their automobile or the unmatchable speed of the airlines.

This makes Europe well-suited to rail services because of the large number of affluent and highly mobile urban populations in a relatively small geographic area. Yet railways have been relatively unsuccessful over the last two decades in marketing an effective challenge to the two main modal competitors.

Domestic passenger rail traffic in the 12 European Community states plus Switzerland, Austria and Yugoslavia, has been rising by around 1.6 per cent a year since 1970, compared with an average growth rate of 6 per cent for air travel.

In international traffic, railway demand fell by 5 per cent between 1975 and 1986, and has been declining at the higher rate of 1 per cent a year since 1980. Over the same period, demand for air travel has risen by 56 per cent, with the result that the modal split has moved from 50/50 in 1975 to 62/38 in favour of the airlines.

On the roads, demand has been growing at the slightly less rapid rate of around 3.2 per cent per year across the Continent, although this combines national and international traffic.

*There are several reasons for* the difficulty experienced by railways in expanding their market share, of which the most serious has been the problem of adapting a largely nineteenth century infrastructure to cope with a late twentieth century market.

However, the increasing popularity of air and road services has created a level of congestion which suggests that at least part of future growth in transport demand may have to switch to the rails if chaos is to be avoided.

Perhaps more importantly, however, are the technological breakthroughs achieved by railway engineers over the last ten years which offer the prospect of high speed running at up to 300kph.

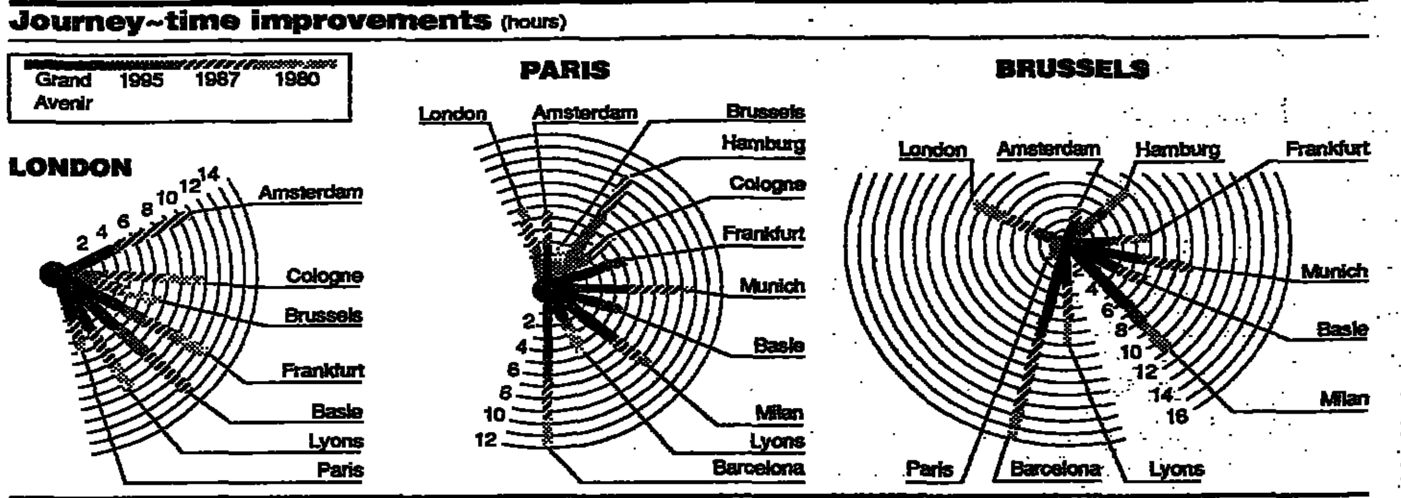
So far, high speed running has had its greatest impact in France, where the Train a

**In Europe, high speed rail operations have made their greatest impact in France so far**

Grande Vitesse (TGV) Sud-Est, from Paris to Lyons, has attracted 40 per cent of its traffic from the airlines and 25 per cent from the motorways.

Even more encouraging for SNCF French railways, 35 per cent of the line's business is "generated" traffic, which was not previously using either mode.

**Journey–time improvements** (hours)




Projects of this kind form the backbone of an ambitious proposal for a European high speed network put forward by the Community of European Railways (CER), which groups together the 12 EC railway authorities plus Switzerland and Austria.

Most of the impetus behind the scheme is coming from France, West Germany and Italy, which together account for 83 per cent of domestic rail passenger movements within the CER.

France plans an expanded network of 7,000km of TGV services, including 2,300km of new line; West Germany plans a 4,500km network of 250-280kph Inter City Express services, including 800km of new line; and in Italy the Alta Velocita network of 2,200km of new track will carry at 250kph trains. In addition, Spain has recently ordered TGV-type trains from France for service on its own expanding high speed network.

There may be some problems with these proposals: financing has not yet been agreed for many routes, and planning processes can cause long hold-ups, particularly in Germany, where delays of around 10 years are common on major infrastructure projects.

However, there is strong support for the project in the national capitals involved, and in Brussels, where the economic and social committee of the European Commission is currently considering what financial aid could be offered.

Officials in the Commission's transport directorate say there is strong support for a Europe-wide high speed rail network, which is seen as both a unifying force and an environmentally preferable alternative to motorway construction.

The focus of the system will be on linking the industrial and financial capitals of the three most populous Continental countries. The CER says the main north/south traffic flows will be:

- A French Atlantic corridor serving Lille, Paris, Bordeaux, Madrid and Lisbon;
- A second French corridor from Lille to Lyons and Marseilles;
- An X-shaped double corridor starting in Amsterdam and Copenhagen/Hamburg in the north, converging in the Rhine/Main region of Germany, and continuing to Milan, Rome and Naples in one direction and Munich and Vienna in the other.

In addition, there will be five east/west corridors linking:

- *Lille, Brussels, Cologne,* Hanover and hamburg;
- Paris, Lorraine, Saar/Alsace, Frankfurt, Stuttgart and Munich;
- Lyons, Geneva, Berne, Zurich, Stuttgart and Munich;
- Lyons, Turin, Milan, *Venice and Trieste;*
- Madrid, Barcelona, Marseilles, Nice and northern Italy.

Seen from this European perspective, it is clear that the UK is a peripheral market, and while Continental railway executives clearly see British traffic as important, the rest of the network will go ahead whatever happens west of the Channel.

For example, Mr Jean Costet, director general of SNCF, says the proposed spur to the Channel Tunnel from the TGV Nord line (Paris to Lille) is more important to SNCF as a potential source of revenue than the proposed northward extension to Brussels.

But Mr Costet is also very careful to stress that the line to Lille would have been proceeded with whether or not the UK and French governments had reached agreement on a framework for the Channel Tunnel project.

This is despite the fact that SNCF takes a much more optimistic view of the likely demand for cross-Channel servicesthan British Rail.

*SNCF forecasts that 16.5m* passengers will use the tunnel on through rail services in 1993, while BR suggests thew figure will be only 13.4m. Eurotunnel, the Anglo-French consortium which will operate the tunnel, forecasts 15.4m.

*The difference in forecasting* persists as projections are cast forward – for 2013, for example, BR forecasts 21.2m passengers and SNCF 26.2m.

These figures make no allowance for generated traffic of the kind which has proved so important in the case of the TGV Sud-Est, and other major infrastructure projects such as the M25 orbital motorway around London.

Yet transport specialists say the level of both traffic diversion from other modes and trip generation is likely to be highly dependent on the frequency, price and quality of through train services.

A recent report for BR prepared by Coopers and Lybrand, for example, expressed concern about the limited knowledge of trip generation given that it is regarded as a critical influence on demand for tunnel.

Steer Davies & Gleave, the transport consultants, notes in a report for the pressure group Transport 2000 on the regional and environmental impact of the tunnel that demand for through rail services depends crucially on the provision of associated infrastructure.

"*We believe there is a* need for a major up-grading in service plans in order to avoid the market demand projections being used by BR becoming a self-fulfilling prophecy," the report says.

BR has now published plans *for a dedicated* high speed line from London to the tunnel,

**The UK is generally well behind its Continental partners in preparing for high speed rail operations**

after initially claiming such a line would not be required. But *there are serious doubts about* the financing and planning process through which the proposal must now pass.

SNCF, for example, does not expect the line to open until at least 1999. The CER has suggested 2000 as a more likely *date, which would mean that* international trains would have to run on the already congested tracks of Kent for seven years after the opening of the tunnel.

In the meantime, Steer Davies & Gleave points out that BR's "perhaps inevitable response" to the high costs of operating Channel tunnel rolling stock *will be to concentrate* operations on the London/Continent route, where the highest load factors will be available.

The East Coast main line from London to Edinburgh is *already electrified* and capable of handling 225kph (140mph) services, but the UK is generally well behind its Continental partners in preparing for high speed operations.

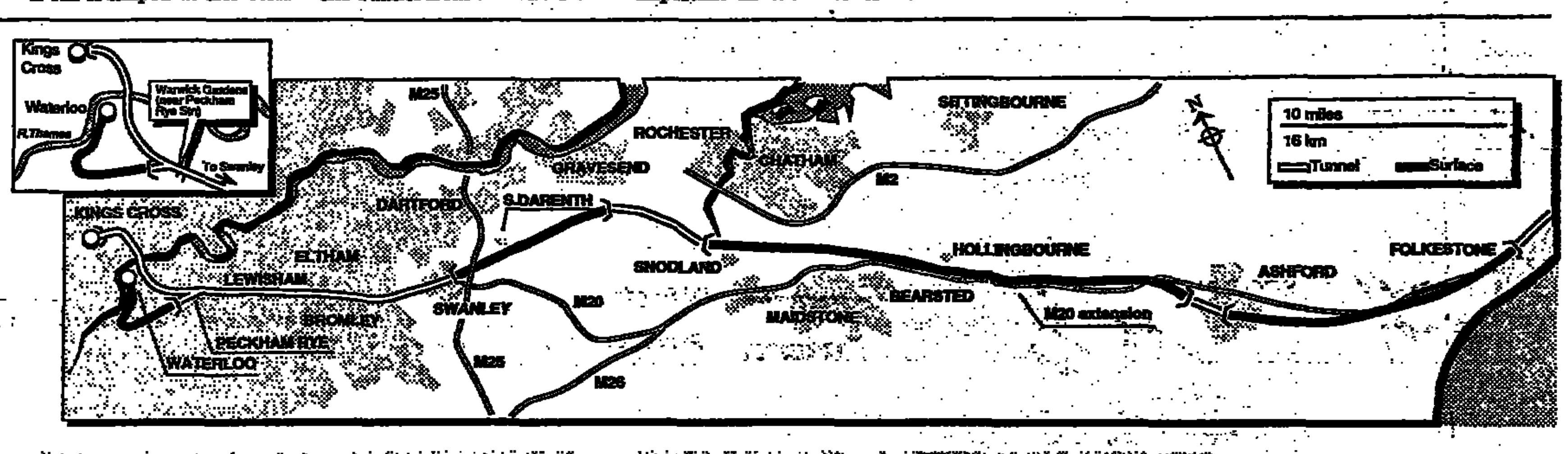
The West Coast main line *serving* Manchester, Liverpool and Glasgow is electrified, but notoriously short of capacity, and very slow north of Preston. Lines to many other British cities are not electrified, including Leicester, Nottingham, derby and Sheffield on the Midland Main Line; Bristol and Swansea on the western region main line; and the route between Glasgow and Edinburgh in Scotland.

There are also doubts about the capacity of the UK planning process – dominated as it is by piecemeal development – to cope with an integrated project such as a high speed rail network.

In France, international trains on the high speed line will be routed directly to Charles de Gaulle airport; in London, there are no plans to route trains to Heathrow, though it could be done by electrifying existing links between King's Cross and a proposed access line to Heathrow from west London.

**Andrew Taylor** examines British Rail's plans for a rail link to the Channel Tunnel

# Britain going slow on a fast track




THE Channel Tunnel – when it opens in 1993 – will provide the first land bridge between Britain and France since the Ice Age. But will Britain's domestic transport systems be *able to cope with a big* increase in international traffic generated by the tunnel?

Britain's response to the transport revolution sweeping Europe, of which the Channel tunnel is just a part, has been to announce plans for a high-speed rail link between London and the mouth of the tunnel on the Kent coast.

Many national and international transport experts believe this link is insufficient and that not enough is being done to ensure that freight and passengers from other parts of Britain will have fast and easy access to the tunnel.

It is a concern shared by many local industrialists and councillors who fear the Channel tunnel will strengthen a north/south divide between a high performing economy in the south and a depressed northern region distanced from the main trade routes on the Continent.

Britain's first high-speed rail route, connecting London to the portals of the Channel, may not be open until 2000. By comparison, the French have been running high-speed trains between Paris and Lyons in the south-east for eight years.

By 1995, France plans to have high-speed links stretching from the Channel to Paris, *south-west to Nantes and Hendaye on the Spanish border,* and southwards through central France to Orleans and Vichy.

In Germany, 4,500km of high-speed track, including 800km of of new lines, is proposed. In Italy, the Alta Velocita network proposes 3,200km of new lines. Other Italian *lines will be upgraded.*

Spain has recently ordered high-speed trains from France and proposes 3,750km of new or upgraded lines.

Investment in Britain's first high-speed rail route has been complicated by British Rail's *decision to bury two-thirds of* the track below ground in a series of tunnels and cuttings. Most of the rest of the line is to be sited alongside existing rail tracks and motorways. The line would run from the

**There are fears that the UK's high-speed rail links with the Kent coast will be inadequate**

Kent coast to a new terminal to be built at King's Cross station, north London.

Details of the route, which will pass through some of the most picturesque and affluent parts of Britain, were announced in March. The plans include 23 miles of tunnels and 22 miles of cutting, out of 68 miles of track.

Maximum speeds were reduced to 140 mph compared with original proposals of 187mph. The environmental improvements were introduced in response to widespread protests from Kent and London residents. According to BR, the changes have increased the cost of building the line, from £1.2m to £1.7m.

BR, prior to the changes, had sought preliminary tenders from companies wishing to privately finance, design, *build and operate the link.* Construction companies which had submitted bids say BR has substantially under-estimated the cost, which could be at least £4bn and could be as high as £6bn, according to some construction experts.

*These figures include interest charges,* the effects of inflation on building costs and contingency arrangements to cover cost overrun. Engineers say waterlogged ground in south-east London will make tunnelling extremely difficult and costly. Still to be decided is who will foot the bill for the extra cost of tunnelling under London and of protecting some of Kent's most picturesque villages.

Private sector companies bidding to finance, design and operate the line say there is a limit on the extent to which fares could be increased. They say it would be impossible to meet the extra cost of the environmental protections from revenue alone.

However, Mrs Margaret Thatcher, the British Prime Minister, has refused to countenance taxpayers' money being used to help pay for the high-speed link. She told the Commons on March 9 this year that it was Government policy that "users of the new line should pay for the full costs, *including environmental costs."*

British Rail says it would be unable to justify spending public money on the new line

Trevor Humphries

**Eurotunnel breakthrough: the co-chairmen of the project, André Bénard, left, with Alastair Morton, at Coquelles, near Calais, last month, at the completion of the first 3km section of tunnel near the French coast.**

until towards the end of century, under the Government's strict rules on investment returns.

Construction groups believe BR would not be unhappy at an outcome which meant the private sector would be unable to meet the increased cost of the line even if it meant BR itself was unable to finance the route until after the Channel tunnel had opened. It would prefer to fund and control the project rather than succumb to a private sector solution that might herald the start of a piecemeal privatisation of the national rail network, vehemently opposed by Sir Bob Reid, BR's chairman.

One solution proposed by the private sector would be to establish a joint venture with BR that would allow a jointly managed high-speed link company to share some of the revenue from the existing rail network in south-east England. This would boost the returns from the link and help to pay for the increased environmental protection.

The high-speed track, which BR has insisted would carry only passenger trains, would free other parts of the network to carry extra rail freight which forecasters expect to increase as a result of the Channel tunnel.

A private/public joint venture with BR might also be able to take advantage of trackside commercial property development opportunities at stations alongside shared routes. These could include developments at Channel tunnel terminals at Waterloo and King's Cross in London.

BR has yet to indicate whether it might be prepared to cross-subsidise a privately financed rail line from revenue from other parts of its network. All the private groups bidding for the high-speed link, are likely to want BR to provide management for signalling and traffic control for a high-speed line.

Banks, as they did with the Channel tunnel, are likely to play a major role in raising funds for a privately-financed line. About £5bn, out of total finance of £6bn, was raised from international banks in borrowing facilities and standby credits for the tunnel.

Japanese banks, heavily involved in the Channel tunnel project, have shown keen interest in funding a privately financed high-speed rail link across Kent and are backing several of the private sector consortia which have submitted preliminary bids to BR.

Six consortia have submitted bids. They include companies already involved in building the Channel tunnel as well as two large French engineering and construction groups. They are:

- Costain, Wimpey, Taylor Woodrow of Britain and Spie Batignolles of France.
- Laing, Mowlem and Tarmac of Britain and GTM Entrepose of France.
- Trafalgar House, construction, property, shipping and hotels group, and BICC, engineering and construction group.
- Amec, construction company; Davy Corporation, engineering and construction company; Monk, civil engineers, and W.S. Atkins, consulting engineer.
- Ove Arup, consulting engineer.
- Peninsular & Oriental Steam Navigation (P&O), shipping and construction group; BAA, formerly British Airports Authority; Trusthouse Forte, hotels and catering group; Acer, consulting engineer, and Hambros merchant bank.

Some of these groups are looking beyond the construction of a high-speed route to the possibility of opportunities for other privately financed projects should the British Government go ahead with plans to privatise British Rail.

Britain, however, has a long way to go to catch up with the investment being made in high-speed rail links by Continental countries such as France, Germany and Italy.

Road and motorway developments

# No shortage of proposed projects

IN THE public imagination, the Channel Tunnel is primarily a railway project, and attention has focussed on the ability or otherwise of British Rail to make the best use of the opportunity provided by a direct link with Europe.

But the tunnel will also link the British and European road networks, albeit through a *shuttle system which will* carry road vehicles under the Channel on roll-on, roll-off railway wagons.

France is planning a huge increase in the road system serving the north of the country which will enable drivers leaving Eurotunnel's French terminal to move quickly into the main European motorway network.

Not all of the construction work planned by the French authorities is directly related to the planned opening of the tunnel in 1993. But many observers believe the French plans compare favourably with the very limited proposals emerging from the British Government.

**France is planning a huge increase in its road system**

Mr Paul Channon, the Transport Secretary, is expected to publish a White Paper on the UK's road requirements shortly, and there have been clear indications from officials that a major increase in the scale of spending is being planned.

However, despite ministerial claims that the system has been speeded up, it is still likely to take at least 10 years to get a major road project into operation. So, even if the Government changes tack now, the results are not likely to come through until around the year 2000 – seven years after the first shuttle trains run through *the tunnel.*

For the moment, all that is proposed is the completion of the so-called "missing link" in the M20 motorway – between Maidstone and Ashford – and the dualling of the A20 between Folkestone and Dover.

This would provide a motorway-standard link from London to the main Channel ferry port at Dover and the Channel Tunnel terminal near Folkestone, where lorries, coaches and cars will board Eurotunnel's shuttle vehicles.

The effect is likely to be to encourage traffic for Dover to abandon the M2/A2 route, currently the prime route for ferry traffic, which suffers several bottlenecks and is to remain single carriageway for the last five miles into Dover.

Indeed, the Transport *Department plans to encourage* a shift in demand of this kind by signposting all Dover and ferry traffic from the M25 London Orbital motorway along the upgraded M20/A20 route.

"There is growing concern that a single link is going to be insufficient to cope with all the traffic which is likely to want to go to and from Dover and Folkestone," says Mr Richard Diment, deputy director of the British Roads Federation.

"Our view is that it is essential that the M2/A2 route should be improved to dual carriageway standard along its length to provide a second route to the tunnel and to Dover.

"Putting all our eggs in one basket is very unwise, particularly when Kent County Council has already expressed concern about the adequacy of the Government's proposals to deal with existing congestion on the two-lane M20 bottleneck around Maidstone."

Quite how much extra road traffic will be generated by the tunnel will not be clear until it opens. However, *cross-Channel freight traffic has grown* strongly over the last 20 years even without the stimulus of a fixed link.

There has also been a long-term trend towards concentration on the Dover-Calais short-sea route – the main market for the tunnel – which increased its share of the passenger market from 19 per cent in 1975 to 42 per cent in 1986.

Eurotunnel, which has conducted extensive research into traffic projections, forecasts that *the total passenger market* will grow from 48.1m trips per annum in 1985 to 67.1m in 1993, and 93.6m in 2003.

Non-oil freight traffic is forecast to increase from 60.4m tonnes per annum in 1985 to 84.4m tonnes in 1993, and 122.6m tonnes in 2003.

These figures are likely to be conservative since they assume very little growth in traffic caused by the existence of the tunnel – so-called "generated" traffic of the kind which has caused serious congestion on motorways such as the M25.

On the other hand, Mr Alastair Morton, the British co-chairman of Eurotunnel, has claimed that the tunnel will provide substantial scope for the transfer of goods traffic from heavy lorries to rail wagons.

This was part of the case made by Eurotunnel for the construction of a high speed rail line through Kent, where many residents were hostile to the Channel tunnel project.

Steer Davies & Gleave, the transport consultants, concluded in their report Turning Trucks into Trains that there was scope for a transfer of between 888 and 1,644 heavy goods vehicles a day from road to rail.

**More motorway links in the UK is certain, but funds are short**

This is equivalent to between 6 per cent and 11 per cent of the number of lorries on the M25 on the Kent side of the Dartford tunnel, and would represent a fairly significant reduction in HGV traffic.

However, Kent County Council has pointed out that even the higher figure is only just over 1 per cent of the 100,000 or so lorry movements which take place in Kent each day.

The prospects for road/rail transfer, which would have huge environmental benefits in Kent, would be greatly increased if British Rail was to invest significantly more in freight-related infrastructure than it currently plans. The potential impact of this should not be over-estimated, however.

BR currently has around 9 per cent of the UK market for domestic freight movements, and around 3 per cent of the cross-Channel market. Privately, BR would regard 10 per cent of the freight market in 1993 as a success. But even if it was able to take 25 per cent of the market, that would still leave well over 50m tonnes travelling by road – around the same level as today.

Even assuming growth in rail's market share on this scale, and using Eurotunnel's

Continued on page 3

Plans change for handling UK freight traffic bound for the Continent

# Conflicting views on freight market

EXECUTIVES from British Rail's Railfreight sector will be spending a lot of time in the UK regions this summer, putting together their final proposals for handling freight traffic bound for the Continent through the Channel Tunnel.

However, all the signs are that pressure from northern industrialists and local authorities for dramatic changes in Railfreight's original proposals are likely to fail.

Radical amendments appeared to be on the cards earlier this year following the creation of Railfreight Distribution late last year, and the appointment of Mr Ian Brown as managing director in charge of international traffic.

The management shake-up followed increasing incredulity among potential users of the tunnel over BR's plans to marshall all freight trains at Willesden, in north-west London.

A review carried out by Mr Brown established that growth in BR's share of the freight market could be seriously curtailed by bottlenecks at Willesden, which could have delayed some goods by up to six hours.

As a result, Railfreight Distribution appeared to have accepted that most of the marshalling of trains would have to be done at regional freight terminals, some of which would offer direct services to the Continent.

The new plan is still being thought out, and changes may still be made. However, it now looks likely to be a much less dramatic change from the original proposals than looked likely earlier this year.

Most importantly, Railfreight has dropped plans to avoid the London bottleneck by running most freight trains on tracks to the west of the capital via Reading, Guildford and Redhill because of a squeeze on funds.

This means that all freight trains will have to pass through Willesden, as in the original plan, although not all will now stop there.

Under the cliffs at Dover: Britain's Transport Minister, Mr PaulChannon, left, with Mr Alastair Morton, co-chairman of Eurotunnel, at the start up of the first main boring machine.

Mr Brown says the outer route would cost £150m more to upgrade to a satisfactory standard than the inner London route, which would be sufficient to push the international freight services into loss.

BR's line now is that the inner route has plenty of excess capacity, and that the outer route can be held in reserve to cope with traffic growth later on.

**British Rail takes a very cautious view of the potential market for freight services**

However, this contrasts oddly with Railfreight Distribution's view in January that "this is a once in a lifetime opportunity for the railways, and Willesden is not a saleable alternative."

Railfreight also had hopes of establishing a series of regional freight terminals covering most of the country, from which direct trains would run to and from Continental destinations.

However, it now looks as though there will be only three or four terminals, and few trains from the regions which do not have to halt for additional wagons at Willesden.

BR takes a very cautious view of the potential market for freight services, which it thinks is being exaggerated by Eurotunnel, the Anglo-French Channel Tunnel operator.

This view is based on the perception that transport costs amount to only around 5 per cent of the retail price of general merchandise, so that a saving of 20 per cent or so on the Channel crossing will not bring about a radical change in the industrial climate.

This view contrasts sharply with the results of research carried out elsewhere – transport analysts at Kitkat & Aitken, for example, estimate that distribution costs can amount to up to 20 per cent of the shelf value of goods.

This cautious approach leads BR to estimate that tunnel freight demand will be between 6.1m and 7.2m tonnes in 1993, rising to 8.5m tonnes by 2023 – small, compared to existing domestic traffic of 140m tonnes a year, but quite large compared to roll on roll off throughput at Dover of around 10m tonnes a year.

Other forecasters take a much more optimistic view of freight potential. SNCF French railways, for example, is forecasting that traffic will grow to 16.4m tonnes by 2023.

The difference in forecasts is important because it directly affects BR's calculations on the potential viability of regional terminals.

Railfreight Distribution's current planning is to develop three or four main aggregation and disaggregation centres at Leeds, Doncaster, Crewe, and possibly Mossend in Strathclyde.

Pre-sorted train sections will be formed at these terminals for direct running to Continental centres – but BR believes demand will be insufficient to justify this.

In practice, trains formed at the regional terminals will have to stop at Willesden so that traffic originating from further south can be added.

This strategy is regarded as unnecessarily defensive by many observers, including Eurotunnel managers, who believe BR is failing to identify the potential of freight services through the tunnel.

The most glaring example of BR's cautious approach is its refusal to consider establishing even a limited Continental guage network in the UK.

The track width on Britain's railways is the same as that in most of Europe excluding Iberia, where a broad guage track is in use. However, The standard BR guage, known as W5, is significantly smaller than the standard guage in Continental Europe, usually called the Continental or Berne guage.

The importance of this is that freight vehicles in use in Continental Europe are wider and taller than their British counterparts, and would foul many platforms and tunnels if they were used in the UK.

BR's ability to attract freight traffic would be greatly enhanced if it was able to make use of Berne guage wagons, which are capable of carrying up to 60 per cent more volume than those designed for UK use.

The corporation has established a larger guage, called W6, on a limited number of lines, in order to accommodate 8ft 6in high wagons, and the line between Redhill and Folkestone – part of the proposed freight route to the tunnel from Willesden – is to be converted as part of this process.

In addition, several attempts by BR and private companies are being made to find a technological way of overcoming the loading guage problem, for example by using vehicles with small wheel bogies which would lower the base of the wagon.

Developments such as this could offer offer some scope for accommodation larger payloads, but none would be as effective as establishing a limited Berne guage network, which would give more than 200,000 Continental wagons access to BR tracks.

BR claims that the costs of such a network would be enormous – citing an estimate of more than £60m for the short distance from the Channel Tunnel portal to Ashford alone.

However, a recent by Steer Davies & Gleave, the transport consultants, concluded that a network of 1,755km of Berne guage track could be created for just £210m at current prices.

This would provide a "core route" from the Channel Tunnel to the Midlands, Yorkshire/Humberside, the North east and Scotland, together with lines to the South West, South Wales and the North West.

Further extensions would be possible, but the core network would enable a very large proportion of the country to be brought within 30 miles of a transhipment depot, the report says.

Steer Davies & Gleave support the conclusions of earlier research that a Berne guage network would limit the business lost to BR through transfers to road haulage at convenient railheads.

In fact, the report indicates, construction of the Channel Tunnel without an associated improvement in bigger-guage track would tend to increase the risk of rail-heading south of the Midlands, and lead to an increase in road haulage through the tunnel.

This would occur if import cargoes which had been trunked by rail across Europe were unable to continue by rail in the Uk because of the loading guage problem.

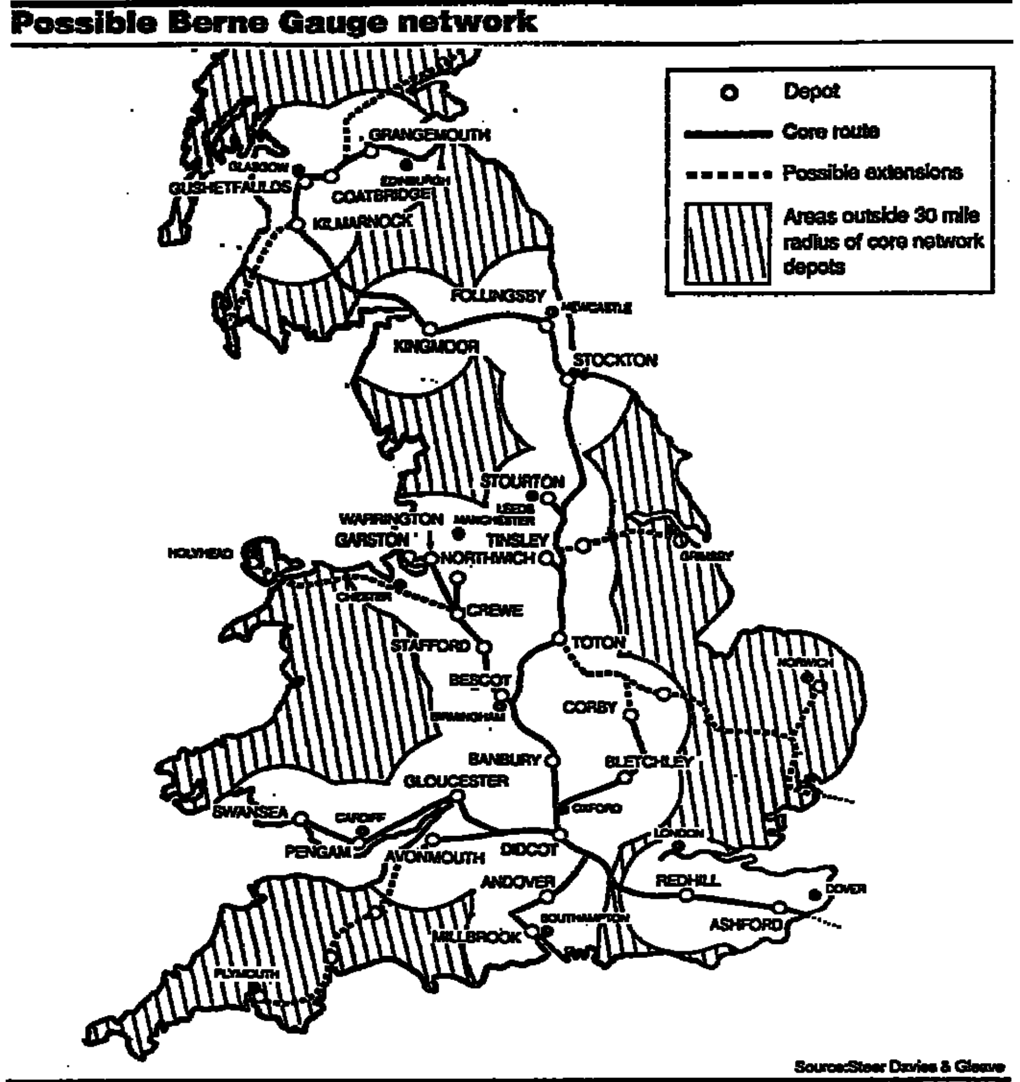
BR managers have also expressed concern that a single Berne guage route – for example, to Leeds – might deprive it of through rail traffic from some other of the country – say, Scotland and South Wales – if it encouraged road haulage to the rail head.

Steer davies & Gleave say this argument is unsound because the economics of road haulage suggest a maximum radius for such trans-shipment of 40 miles. Beyond that distance, through road haulage to the tunnel is likely to be more economic.

The report concludes that a Berne guage network would take time to implement, even it were approved, and would leave parts of the country unserved. So technical developments in wagon design which might squeeze the maximum out of the existing loading guage should be seen as complementary to the possible use of Berne guage wagons.

**Kevin Brown**

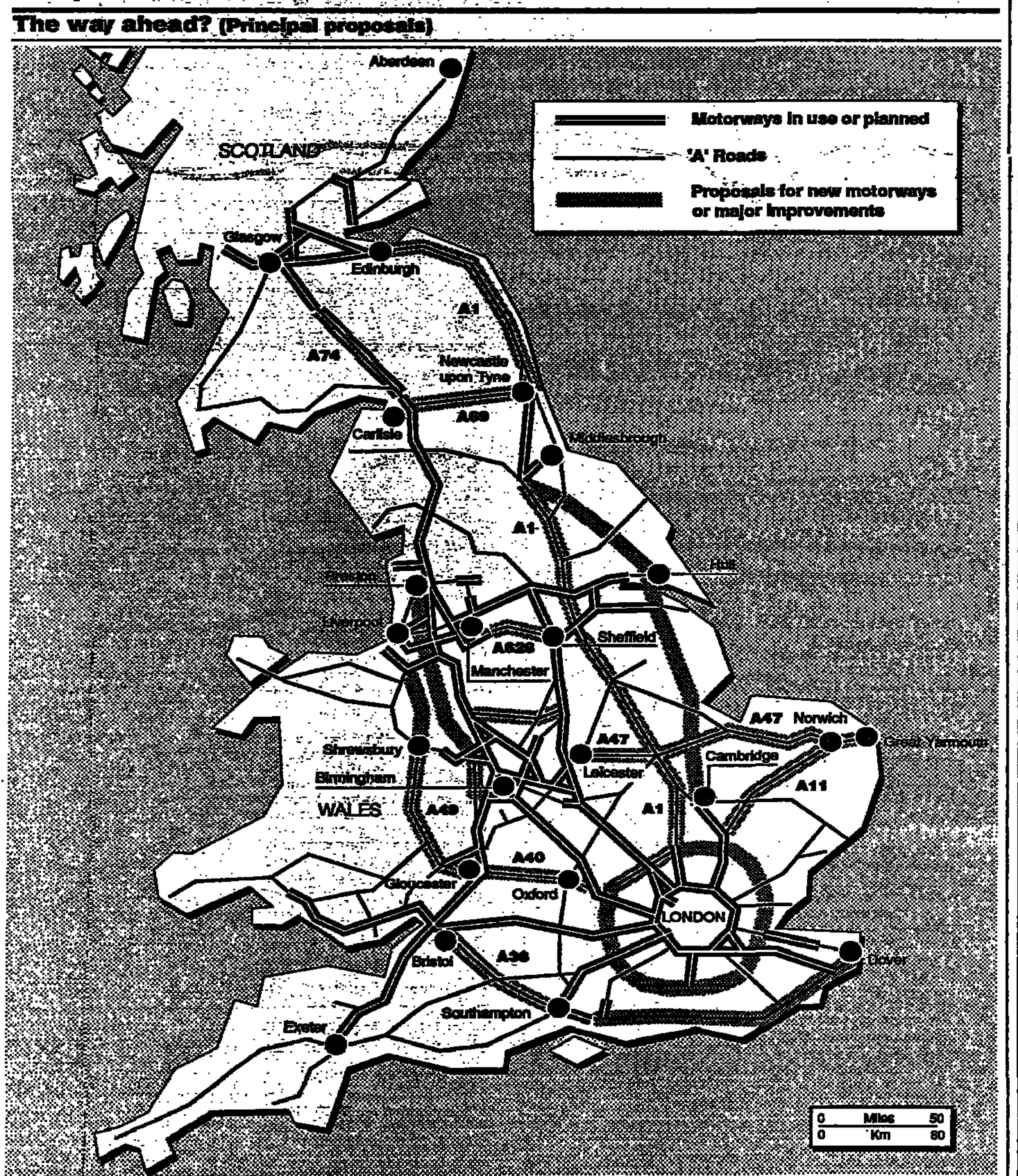
**Possible Berne Gauge network**





Source:Steer Davies & Gleave

**The way ahead? (Principal proposals)**





Sources:British Road Federation,CBI,British Chambers of Commerce and others

# Motorway developments

Continued from page 2

conservative figures, the amount of cross-Channel freight travelling by road by 2003 is likely to be at least 90m tonnes a year.

All this will be in addition to growth in non-tunnel related traffic demand in Kent, which has been growing at between 5 and 10 per cent a year above Transport Department forecasts. Kent already has the longest list of uncompleted by-pass projects of any county council.

The only answer, say critics of the Government's strategy, is a step-change in the road construction budget, probably adding up to £600m to the existing budget of around £800m a year.

Much of this will need to go into improving road links to the tunnel from the regions, especially if BR fails to invest in a radically improved freight transport system.

There is no shortage of proposed projects, but the most important in this context include the dualling of the A259/A27 route from Folkestone to Southampton, with a dual carriageway link to Bristol and South Wales along the A36, and an outer London orbital motorway to relieve the M25.

These projects would provide good road access to the tunnel from the West, Wales and the West Midlands. However, a case is also made by a number of organisations for an East Coast motorway from London to the North-East via the Humber bridge, and much improved east-west links to East coast ports such as Hull and Felixtowe.

Links such as these might help to reduce pressure on the South-East by diverting some of the demand for cross-Channel services from the tunnel and the Dover ferries to the East coast ports, which have built up a substantial UK-Continent business since Britain joined the European Economic Community.

These issues will be in Mr Channon's mind as he prepares his White Paper. An increase in spending is certain; whether he will be able to find sufficient resources to do more than scratch the surface of the problem is doubtful.

**Kevin Brown**

## Planning progress and better communications

# Road to controversy

JUST a few years ago, the Government announced that Britain's motorway system was virtually complete. The completion of the M25 was within sight and fill-in improvements were planned to east-west links across the country to cater for the growth in trade with the rest of the European Community.

But, crucially, those pronouncements of satisfaction were made before Mrs Thatcher had been converted to the idea that the Channel Tunnel was feasible, before the commitment to the single European market had been timetabled for 1992, and at a time when the economy was still reeling from the effects of the 1980/1 recession.

Today, the prospect of the tunnel and 1992, and the growth in traffic that has accompanied growth in the national economy, have combined to renew pressure from business on the Government to build more roads, and to build them quickly.

The pressures raise again the controversies inherent in the planning system, which aims to reconcile the desire for development and better communications, with protection of the ordinary population from the ravages of development.

The county of Kent illustrates this dilemma to the full. The desire of residents, as represented by the county council, is preservation of the status quo. But Kent is also the front line of the Channel tunnel.

Authority for the tunnel was granted through the mechanism of the private Parliamentary bill. Authorisation for the high-speed rail line, similarly, will be sought through Parliament, bypassing the normal planning procedures.

Given that the tunnel was imposed in this way on Kent, the council wanted to enjoy the gains rather than see everything speed through Kent. In a bid to satisfy everybody, it took the view that the best it could do was to channel investment in commercial and residential development to areas where it was deemed desirable.

This has not been easy, and certainly not quick. For every Dartford council, which is eager to capitalise on the communications benefits brought by the M25, and to a lesser extent expected from the tunnel, there are other councils wanting to resist the pace of development forced upon them.

Ashford, in south-east Kent, is now realising that it will have to allow a big increase in housing if the town is to benefit from new jobs spinning off from the tunnel.

Planning is a matter for county and local councils, the county council being responsible for the allocation of areas for development within the structural plan, and the district councils for the planning at the local level. Kent is amending its structural plan because of the tunnel, identifying the areas suitable for growth. District councils are gradually adapting their plans to take this into account.

**Business has renewed pressure on the Government to build more roads, and to build them quickly**

The system is far from perfect. It can be long-winded. It can be ineffective. It is not likely, for instance, that it will enable Kent to strike the perfect balance between development and conservation. But some still think it the most democratic means.

Normal planning procedures have been circumvented in respect of certain developments contingent on the tunnel, such as the site to the entrance at Cheriton, and the passenger terminal at Waterloo.

Now, arguments are being put forward for planning to be speeded up in relation to roads. Planning for major roads is a matter for the Department of Transport. The whole planning process, including a public inquiry, means it can take up to 15 years to plan and construct a new road, although the actual building takes only three years.

The Confederation of British Industry, representing business interests, has called again recently for substantial new investment to improve the transport infrastructure, arguing that Britain is far less prepared for the impact of the tunnel, and 1992, than France.

One of the major impediments to a big improvement in the infrastructure has been the Government's determination not to increase public spending. But the CBI also argues that the planning system is clogging up the process. "Difficult decisions are never easy to take but the planning system should make it easier to take such decisions rather than to prolong them." Mr John Banham, director general, recently told a meeting of the Chartered Institute of Transport.

He also argued that governments do not take "the long view". The decision to construct the M25 was taken 15 years ago, but traffic growth since then has made expansion of its capacity vital. If the Department of Transport had asked at the outset for a dual four-lane carriageway, either the Treasury would not have agreed the funding or objectors in public inquiries would have stopped it on environmental grounds, said Mr Banham.

The arguments, however, are not always clear-cut. The balance between road and rail, better integration of existing forms of transport, and the establishing of priorities for infrastructure projects between the regions are all considerations which must be encompassed within the planning mechanism, but too often are ignored.

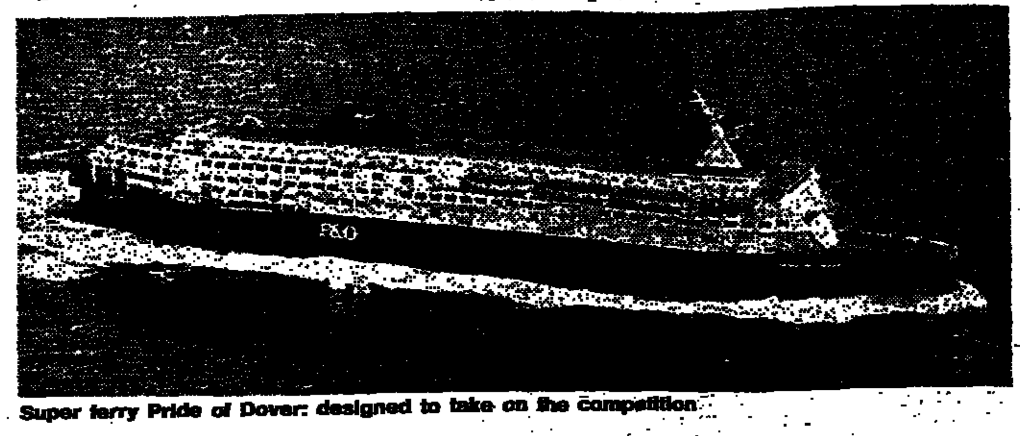
The Government's proposals for new development plan systems, set out in the recent White Paper, are intended to bring a greater regional context into planning. The main challenges arising from the Channel tunnel and the growing significance of Continental markets are the need to ensure that Britain is not handicapped by poor communications, and that congestion in the bottlenecks of the south-east and parts of the north are relieved. However, ministers are also anxious not to alienate the Government's supporters who might fear that motorways and high-speed rail lines will be sweeping through their towns.

The problem is always that what is one person's idea of progress affects another person's backyard. Nowhere has this been demonstrated more stridently than in south-east London and Kent, where the proposed fast rail link threatens the environment of several thousand people.

**Hazel Duffy**

## Kevin Brown examines battle plans of maritime companies

# Ferries prepare to ride out the storm



Super ferry Pride of Dover: designed to take on the competition

THE Anglo-French Channel Tunnel consortium, Eurotunnel, has been given a far from easy ride by Britain's ferry and port operators over the past couple of years.

So far, Eurotunnel has won every round in the battle, but the maritime companies have not given up hope that they may yet have the last laugh.

The first defeat for the ferry companies came when the French and British governments selected the Eurotunnel scheme rather than a rival bid from Mr James Sherwood's Bermuda-based Sea Containers group, owner of the Sealink ferry company.

Little daunted, Mr Sherwood joined Mr Jonathan Sloggett, managing director of the Port of Dover, in leading the Flexilink campaign, aimed at persuading Parliament not to approve Eurotunnel's proposals.

When that failed, Flexilink turned to an attempt to persuade investors that Eurotunnel was bound to lose money and was inherently unsafe.

The campaign seemed to be making some headway on the safety issue – despite vehement denials from Eurotunnel – until the Zeebrugge disaster in March 1987, when nearly 200 people died in the P&O ship Herald of Free Enterprise.

The disaster removed all credibility from Flexilink's claims that the ferries were inherently safer than the tunnel, and the campaign effectively collapsed, leading Mr Sloggett to speculate about the possibility of building an hotel on Dover's roll-on, roll-off berths.

However, Sea Containers and P&O, which have around 80 per cent of the short-sea market between them, have made significant progress towards a number of strategic objectives intended to put them in a position to compete with the tunnel.

The strategy, set out by Sir Jeffrey Sterling, chairman of P&O, and backed by Mr Sherwood, revolved round four key objectives:

● Obtaining undertakings from the Government to prevent "predatory pricing" by Eurotunnel, improved road communications to Dover, and speeded up customs and immigration services;

● Achieving substantial cuts in costs through reductions in the number of crews employed to man each vessel;

● Upgrading the image of ferry travel by re-equipping modern ships with better facilities and replacing older tonnage; and

● Talks on operating a joint service, for which permission from the Office of Fair Trading and the European Commission is required.

The two companies have had little success in obtaining guarantees on predatory pricing, but the Government has undertaken to improve road access to Dover, and the port authority is discussing a new high-speed customs service, intended particularly for freight traffic.

There have been major advances on the other three fronts:

● First, P&O moved unilaterally to reduce its costs last year by imposing new manning arrangements which reduced the number of seamen on the company payroll by 700. A six months strike over the changes cost P&O £25m, but the company's costs are thought to have been reduced by around 20 per cent.

Sealink has gone down a different road, preferring to negotiate with the unions rather than to confront them. Mr Sherwood says he has been given a guarantee by the National Union of Seamen that his ships will remain competitive with those run by P&O.

However, he says there is no doubt that Sealink will have to cut its costs further by reducing the number of crews per vessel from 4/5 to nearer the 3.2 achieved by P&O.

"P&O is in a better position than we are because they are running a non-union operation, but we believe that the unions will see that we must be kept competitive," Mr Sherwood says.

He concedes that the reaction from union leaders in initial talks has been "hostile", but adds: "I think they are suspicious, but by the same token they are reasonably well-informed people and they know that the tunnel is coming. They know they are going to have to co-operate to ensure that the ferry companies survive."

**The ferry companies have made progress towards a number of objectives intended to help them compete with the tunnel**

● Second, P&O has already introduced two new "super ferries" – the Pride of Dover and Pride of Calais, and Sealink has recently purchased two large roll-on, roll-off ships for £50m from Sonat, the Bulgarian state operator.

These two ships, built by Kockums of Sweden in 1981, are to be refitted at a cost of £60m to increase passenger capacity from 300 to 1,800, and will be introduced on the Dover routes next year under the names Fiesta and Fantasia.

Both companies have plans to introduce other large ships after the opening of the tunnel, in 1993.

● Third, P&O recently approached the OFT and the European Commission on behalf of both companies requesting permission to run a joint service – a proposal originally made by Sea Containers nearly three years ago.

According to Mr Sherwood, he and Sir Jeffrey are now in full agreement about future strategy, despite having had a public row during the P&O dispute.

"We are very close to P&O, and Sir Jeffrey has been a close friend of mine for 25 years," Mr Sherwood says.

"The press tried to make up a story that we were 'at daggers drawn' but that was not true. We were officially at daggers drawn, but that was only to get our people back to work.

"After The Herald, P&O had a change of management, and then they were learning about the ferry business, and then they had the strike. As a result, the ultimate plans for rationalisation at Dover were put on the back burner."

Mr Sherwood says the plan is for the two companies to operate six large, super de luxe ferries offering hourly departures between Dover and Calais around the clock for 364 days a year.

"We believe that the experience of going through the tunnel is going to be fairly basic for travellers in the sense that they will have to sit in their cars the entire time in an enclosed carriage.

"Even though the ferries will take an hour longer it will be an hour they can spend having their meals or going shopping or just enjoying the trip.

"That is going to be an extra hour well spent and it is going to attract a lot of people to use the ferries even though the Channel tunnel is right next door," he says.

"Sea Containers would like to start the new joint service next year, though this must be unlikely since the OFT is unlikely even to respond before the end of the year.

However, Mr Sherwood says the two companies are prepared to give undertakings to the OFT that tariffs would not be raised by more than the rate of inflation in advance of the opening of the tunnel.

The only exception to this would be 1992, when the European Community is expected to abolish the anomaly of duty-free concessions for ships travelling between the UK and the rest of Europe.

The hope is that such an undertaking would overcome OFT objections to the creation of a monopoly on the short sea routes. However, it would also prevent the ferry companies building a cash reserve at the expense of the travelling public with which to finance competition against the tunnel later on.

"Our basic argument is that we are going to have quite a few competitors. The tunnel will have both through rail and shuttle services, on top of that we have the airlines. They are not going to go away," Mr Sherwood says.

"So the ferries are going to be one out of four major competitors. It is the policy of the Government that the ferries will survive – if the ferries were not there the tunnel could just price itself in any way it wanted to. It could take terrible advantage of the travelling public.

"So I am sure that the OFT does not want government to see the ferry companies go bust in a disorganised competitive environment but to form themselves into a single unit to keep the tunnel honest."

Mr Sherwood claims the ferry companies' proposals would allow Sea Containers to cut costs by up to 50 per cent, which would put serious pressure on Eurotunnel's margins.

Meanwhile, he continues to maintain that Eurotunnel will lose money – "the figures have all been hyped-up to delude all the shareholders into thinking there is going to be a pot of gold here – but any rational forward analysis shows the tunnel will lose money for many years," he says.

Eurocity Express takes off for Europe from the Docklands: in 1985 airlines made 28m passenger trips across the Channel

# More competition for airlines

Continued from Page 1

routes, competition is more unfettered than on others. One such route is between the UK and The Netherlands where any airline is free to start services at whatever fares it chooses. Only when the both governments object to a service, are flights not permitted.

The UK-Amsterdam market in civil aviation is already one of the best served in Europe with almost 200 flights a week from the four main London airports. The market could be a model for what will happen on other routes after liberalisation of air services in 1992.

At present there are flights available from most UK regional airports as well as from the main London airports, Heathrow, Gatwick, Stansted and Luton.

The freeing of the market on the routes between the UK and The Netherlands has led to the availability of almost 200 flights a week on routes between London and The Netherlands. The route between Heathrow airport, London, and Schiphol Airport, Amsterdam, is the world's oldest international air route. It handles about 1.3m passengers each year and is the busiest route out of Schiphol airport.

The British Airways monopoly of UK airlines on the route was broken in 1986 when British Midland Airways started the first competing international scheduled services from Heathrow airport in 14 years.

More competition between airlines in Europe and especially the market between the UK and the Continent, possibly the biggest single transport market in Europe, is inevitable as the competition policy of the European Community is brought into force by 1992, when its regulations affecting airlines will be legally enforceable.

Sir Leon Brittan, the European Commissioner responsible for competition, told a symposium in Brussels last month that airlines ought to be allowed to provide the services they considered to be commercially appropriate.

Airlines and governments in Europe will be treading some difficult paths towards a liberalised regime for air transport as the single market conditions approach. Neither the airlines nor the governments of the member states will be free to do as they wish. It is already clear that the European Commission will not tolerate any interference by member governments about the level of air fares decided by airlines. Governments will have no rights under Commission rules to regulate air fares.

This freedom is welcomed by many airlines, but the airlines will not have unfettered freedom to act as if in a totally unrestrained free market. The Commission will act to prevent the emergence of a small handful of dominant airlines in Europe after the liberalised market in civil aviation comes into force in 1992. The emergence of a few ultra large airlines in Europe is a probability, after the lifting of artificial controls on competition, if the response of US airlines after their own deregulation in the 1970s was anything to go by.

**Governments will have no rights to regulate air fares**

The deregulation of US airlines on domestic services in the US led to a proliferation of small airlines, in response to the opening of market opportunities. Initially these undercut the larger, more established airline operators but were soon bought up, merged or formed into operating partnerships with the larger companies, again as a consequence of competition. The result was the emergence of a handful of large airlines.

This is unlikely to be permitted in Europe, if the Commission sticks to its threat to prevent the large-scale mergers which would have the effect of cutting competition by eliminating smaller airline operators. Sir Leon Brittan said: "The challenge for the Community will be to learn from the US experience and avoid the pitfalls encountered there."

For airlines, this doubled-edged sword of competition in Europe – freedom edged by the threat of intervention by the European Commission not to exploit the freedom too much by growing too big – is likely to lead to uncertainty among airlines about how far they can grow after deregulation. Alongside the backing for greater freedom for airlines will be European Commission rules on competition and merger control.

Sir Leon said: "I do not see why it should be necessary for two governments to expressly approve air fares. Airlines should be free to charge the fares at the level they judge to be commercially appropriate, provided they do not charge fares which are excessively high or which are intended to eliminate competitors." Article 90 of the Treaty of Rome, which set up the European Economic Community, gave the Commission considerable powers to control government measures which had anti-competitive effects.

Ahead of the changes in 1992, airlines are already jostling for position to exploit the coming changes. One of the most topical battles is for British airlines to form a partnership with Sabena, the Belgian national airline, based in Brussels, the headquarters of the European Commission and a growing hub for intra-European traffic.

British Airways is the latest in a long line of airlines to start talks with Sabena about forming a link. However, BA might be frustrated by British Midland Airways, the thrusting independent airline, determined to upset the plans of its bigger rival.

Mr Michael Bishop, the chairman and chief executive of British Midland, said the company would appeal to the European Commission to prevent a planned link between British Airways and Sabena. British Midland recently sold a 24.9 per cent stake in its parent Airlines of Britain Holdings to Scandinavian Airlines System, one of the airlines that previously had had talks with Sabena about a partnership.

SAS has written to Sabena to revive these talks and if they are, British Midland Airways will be involved, putting it on a collision course with British Airways. British Midland objects to the British Airways approach to Sabena because it could provide BA with more hub bases in Europe than any other airline, giving it the chance to dominate the market and act against the interests of competition policy.

**Lynton McLain**

# Pan-European links

Continued from Page 1

ning," Mr Gossop says.

"But there is a much wider question about the relationship between the regions. This is leading to infrastructure in the North being under-exploited while the South is being overloaded."

Like other commentators, Mr Gossop says BR is bound to be inhibited by the Government requirement that it should achieve a 7 per cent return on infrastructure investment – recently raised by the Treasury to 8 per cent.

"Government policy is mistaken – or you could say non-existent," he says. "They have left BR to make this scheme work but they are not being given the freedom they need, and it is all going to be very piecemeal.

"If the scheme is compared with the way they handle things on the Continent, then it shows it in a very poor light indeed.

"The market alone cannot provide the investment which is needed. What we need is a proper strategic plan for making the best use of the Channel Tunnel, using private and public money in combination."



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# LONDON STOCK EXCHANGE

## Weak start to the equity Account

THE NEW trading peaks established in London's equity market on Friday were soon lost yesterday, and share prices fell away sharply at the end of the session when Wall Street opened lower. The market was less active than last week, and the first day of the new equity trading Account was marked by a number of ex dividend quotations in leading stocks.

There was a somewhat cool reception in the equity sector to the announcement of a 1.6 per cent rise in manufacturing input prices in April – well above expectations – and a 0.5 per cent gain in output prices. Also discouraging for the market was a gloomy meeting of analysts with the board of English China Clays.

| Account Dealing Dates | | |
|---|---|---|
| First Dealings: | | |
| Apr 17 | May 8 | May 22 |
| Option Declarations: | | |
| May 4 | May 18 | Jun 1 |
| Last Dealings: | | |
| May 5 | May 19 | Jun 2 |
| Account Day: | | |
| May 15 | May 30 | Jun 12 |

New time dealings may take place from 9.00 am two business days earlier.

However, losses in share prices were modest until late afternoon when London grew increasingly nervous that Wall Street might extend the fall suffered late on Friday. When the Street did indeed make a poor start to the new session, London reacted quickly.

The FT-SE Index, less than five points down within one hour of the end of the session, closed 13.2 lower on the day at 2,119.6. There was not much selling pressure and traders appeared confident that the market could regain its poise.

Turnover moderated yesterday, and many leading stocks were hardly challenged. Seaq volume of 426.6m shares compared with 589.2m on Friday and 540.4m on Thursday. Under the recent change to Seaq reporting rules, large-sized deals are included in the Seaq overall volume total, although not individually disclosed on the trading screens.

Traders pointed out that market indices were adversely affected by the number of ex dividend price quotations, and by obvious profit-taking in stocks which had attracted heavy support in the previous Account. A reaction yesterday in the two Racal stocks, which had been bought heavily from the US, was hardly unexpected. A similar setback in Trusthouse Forte reflected the denial by the chief executive of the latest round of bid rumours.

However, the strong reaction to Wall Street indicated that the London market is more nervous than its new peak levels might suggest. Technical analysts have warned that a further correction could be in view for London if Wall Street proves unable to consolidate above the Dow Jones 2,400 mark.

Although speculative interest was more muted yesterday, there were still persistent hints that a large acquisition is hovering above the marketplace. These hints appeared unrelated to the Beecham/SmithKline Beckman plan, which is expected to advance on schedule, or to the Consolidated Gold Fields/Minorco battle, which has died away pending the ruling from the UK Takeover Panel.

## Figures no help to Sears

A better-than-expected 11 per cent rise in annual profits last year from retailing group Sears failed to excite the Stores sector, and after a gloomy analysts' meeting the shares rapidly lost ground amid a welter of brokers' downgradings. The revised range of profits forecasts for the year ending January 1990 is now £240m to £253m, with UBS Phillips & Drew occupying the bottom slot. "The performance of the retailing division in the second half is particularly worrying," said UBS.

There was also concern about the housebuilding division, in spite of its impressive contribution to last year's gains. "Our building sector analysts have told us that profits from housebuilding next year at Sears could fall by as much as a quarter, or even a third, which is considerably more than Sears itself is predicting," said one leading stores researcher.

There was one notable dissenting voice. Mr Nick Bubb of US house Morgan Stanley is sticking with his forecast of £253m for the group next year. "There should be a good second-half recovery in retailing, particularly in footwear, while housebuilding won't be as bad as most people expect," said Mr Bubb, who was surprised that the market knocked the Sears share price down to 118p, a fall of 6 on the day. However, turnover was busy at 18m shares, with dealers reporting good two-way trade throughout the day.

### Gloomy meeting

English China Clays suffered as analysts came away in a gloomy frame of mind from their briefing on the group's interim results. Profits over the first six-months were in line with expectations at £66.3m, compared with £59.9m, but researchers were unprepared for the pointer of slower volume growth in the latter half. They were left wondering that the paper industry cycle might be nearing its top and that the construction division, in particular the housebuilding side, could also be vulnerable.

One claimed the group's credibility had been damaged and forecast further downside in the shares, which lost 31 to 504p yesterday. Most clipped their full-year profit estimates with the majority opting for a figure of around £160m as against a median of £165m. Marketmakers confirmed that selling pressure was quite noticeable from midday onwards, giving the shares little chance to establish a recovery. Volume eventually totalled 3.0m shares.

### Morning discussion

This morning's annual meeting of shareholders at Smith & Nephew will convene in the face of a sharp drop in the shares as UK market analysts have taken a fresh and sometimes less favourable view of the stock. The shares, down 4 on Friday afternoon, lost a further 2 to 138½p yesterday after deduction of the dividend payment. Nearly 9m shares have traded over the past two sessions.

The pharmaceuticals team at UBS Phillips & Drew downgraded the shares on Friday, cutting forecasts for this year's profit from £147m to £144m. The team believes that Latex, the rubber glove making subsidiary, faces a much more competitive year in the US, and that Smith's associate tissue manufacturer will find the going harder in the UK as retailers improve order book efficiency.

By the time the board faces the annual meeting, it will have breakfasted with City analysts, some of whom take a somewhat more favourable line. Nomura International estimates Smith's profits at £147m this year, while the BZW team forecast £147.5m.

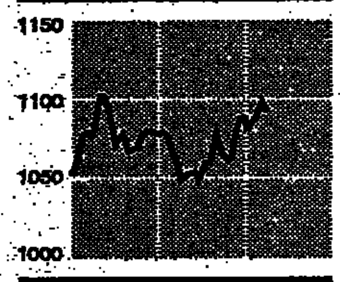
With the pound a touch firmer in late dealings despite the continuing rise in the dollar, some international blue chips rallied at the end, against the overall trend of the equity market. Among those to close easier but off the bottom were ICI (1412p) and Unilever (570p).

Beecham eased a couple of pence to 582p but turnover was light, and the market held to its view that the planned merger with SmithKline Beckman would procede without undue pressures, and probably without the appearance of a third party.

Minor price changes in the big-four banks masked some useful activity in the sector, with the emphasis on Barclays. The latter was a fraction easier at 451p on turnover of 2.3m after an announcement that the bank is raising $200m via a US preference share market. The significance of the move, according to sector specialists, is that lingering fears of a rights issue from any of the big banks in the near future have been dispelled by Barclays' fund raising. "If they (the banks) need to raise capital they will go to the US preference market," said one.

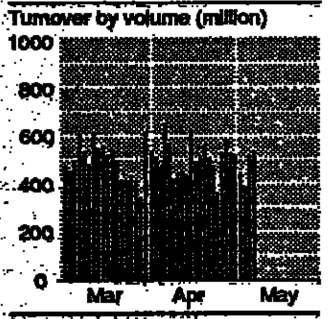
There was some keen interest in Lloyds and Midland following a "switch Midland into Lloyds" recommendation from the banks team at Citicorp Scrimgeour Vickers. Mr Alan Greenberg, at Scrimgeour, says the main thrust of the argument is that the premium of the Midland price earnings multiple over that of Lloyds is likely to disappear because; it is increasingly more unlikely that Hongkong & Shanghai will bid for Midland; a merger of the two is more likely; the chances of Midland bidding for Hongkong & Shanghai are marginally higher. "The two banks have similar LDC and other risks but Lloyds has better prospects for dividend and profit growth as well," Mr Greenberg said.

**FT-A All-Share Index**




**Equity Shares Traded**

Turnover by volume (million)




Lloyds shares ended the day a few pence ahead at 367p on turnover of 1.4m while Midland held at 340p.

Hotels were weaker with Trusthouse Forte falling 16 to 304p as the group revealed that it had found nothing unusual on its share register.

The chemicals sector included features in Cairl Group, up 11 at 437p after acquisition news. Rechem were among the market's best performers and surged 47 to 531p, after 534p; the stock was highlighted in a newsletter and dealers described yesterday's upsurge as "a classic bear squeeze."

Stores were unsettled by the disappointing breakdown of the Sears figures, with Marks & Spencer notably weak at 169½p, down a net 5¼ on turnover of 5.8m shares. M&S is due to report final profits today, and the middle of the market's range of forecasts is £534m. Other clothing retailers closing easier included Burton, down 5 at 213p.

Activity in the front-line electronics and telecommunications issues was concentrated in only a handful of stocks; British Telecom, where turnover reached 12m, Racal Electronics (7.4m), Cable & Wireless (3.7m) and Ferranti (5.1m).

British Telecom ended the session only a fraction off at 267p with interest generated by the divergence of opinions on the stock between broking houses. Mr Jack Summerscale re-emphasised his caution on the shares by cutting his forecast of 1989-90 pre-tax profits from £2.62bn to £2.57bn – "These figures indicate a very disappointing performance from the core business," according to BZW, who rate Telecom a "sell".

There was also a two-way pull in Ferranti, which closed slightly easier at 108p. Cable & Wireless eased 3 to 511p after the alterations in telephone call charges. The seemingly relentless advance by Racal Electronic was punctured yesterday when profit-takers moved in and sold the stock after cautious Press comment. Racal Telecom slipped 3 to 396p, with one analyst noting that "cellular radio fever has at last abated." A BZW "sell" recommendation lowered STC 4 to 344p; BZW say the shares are "now ten per cent too expensive in our view." Thorn EMI added 7 at 705p with analysts taking a positive view of the group's current trading.

The Food manufacturing sector was alive with speculation after it was revealed that US securities house Morgan Stanley and UK merchant bank Samuel Montagu had called in City analysts and company reporters for meetings this morning. Although the word in the market was that the announcement would cover a major international disposal or acquisition, speculation that a bid might be involved kept selected stocks busy.

Dairy group Unigate was the biggest beneficiary as its shares jumped 13 to 368p on hopes that it would be the subject of the hastily-arranged meetings. However dealers said that its strength could be accounted for by the number of recent brokers circulars which have suggested switching into the stock from elsewhere in the sector.

Other names linked to the story were United Biscuits, down 5 at 335p on suggestions that the meetings could have been called to announce UB's acquisition of RJR Nabisco's European food operations, Cadbury Schweppes, steady at 381p but heavily traded on the Options market via May call contracts, and Ranks Hovis Macdougall, slightly easier at 349p.

Two other manufacturers were also firmer; Hillsdown, up 5 at 269p as the 60.5m shares sold by Mr David Thompson last month continued to be digested, and Dalgety, up 4 at 350p after fears of a rights issue receded.

Retailers, in contrast, were relatively quiet, although there was fair turnover in Asda, 2 better at 166p (3.6m shares traded), and Gateway, 1½ firmer at 195p (5.1m shares traded).

BAA were influenced still by Citicorp Scrimgeour Vickers advice and gained 4 more to 383p after turnover of 3.1m shares. Mr Richard Finch said recently, "the trading strength of the core operations and the prospect of renewed interest in the group's asset value have reinforced his positive stance on this lowly-rated growth stock."

BBA benefited as Mr Martin Smith of the same house changed his stance from hold to buy after the acquisition last week of IGH. The shares ended 4 higher at 203p, after 206p. On a contrasting note, Trafalgar House slipped 5 to 388p awaiting today's interim statement; analysts' forecasts range from profits of £92m to £100m. Pilkington turned down late to finish 8 lower at 241p.

Among smaller industrial concerns, Hornby rose 7 to 205p amid stories of a stake-building operation while speculative inquiries took Handley-Walker up 8 to 198p and J Williams 4 dearer to 61p. Newspaper mention helped Corton Beach rise 4 to 82p but BIMEC Industries fall 4 to 39p. Elsewhere, Kitty Little recovered 8 to 63p ex-dividend and Mining & Allied Supplies advanced 3¼ to 29p on property sale hopes.

WPP withstood the effects of the proposal to increase the offer for Ogilvy Group, the US agency, from $45 to $50 a share. Quoted ex-dividend, WPP shares closed with little change.

Palma Group conceded more ground with Mr Lawrence Rubin of Kitcat & Aitken, the broking house, warning that the company may now suffer from a credibility problem until it can show two years of consistent growth. "It may be felt that the chairman should have been more forthcoming on the extent of operational gearing within the group," he said as the shares closed 7½ down at 84p ex-dividend.

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 28

## FINANCIAL TIMES STOCK INDICES

| | May 8 | May 5 | May 4 | May 3 | Apr 2 | Year Ago | 1989 High | 1989 Low | Since Compilation High | Since Compilation Low |
|---|---|---|---|---|---|---|---|---|---|---|
| Government Secs | 85.85 | 88.85 | 86.92 | 88.64 | 88.60 | 89.89 | 89.29 (8/2) | 85.84 (13/4) | 127.4 (9/1/35) | 49.18 (3/1/75) |
| Fixed Interest | 97.27 | 97.69 | 97.50 | 97.50 | 97.67 | 97.20 | 99.59 (15/3) | 95.93 (4/1) | 105.4 (28/11/47) | 50.53 (3/1/75) |
| Ordinary | 1762.7 | 1770.9 | 1758.1 | 1744.5 | 1736.3 | 1438.0 | 1770.9 (5/5) | 1447.8 (3/1) | 1926.2 (16/7/87) | 49.4 (26/6/40) |
| Gold Mines | 174.7 | 174.3 | 173.7 | 173.0 | 176.9 | 198.5 | 196.1 (28/3) | 154.7 (17/2) | 734.7 (15/2/83) | 43.5 (26/10/71) |

| | May 8 | May 5 | May 4 | May 3 | Apr 2 | Year Ago |
|---|---|---|---|---|---|---|
| Ord. Div. Yield | 4.43 | 4.41 | 4.44 | 4.47 | 4.48 | 4.52 |
| Earning Yld %(full) | 10.79 | 10.74 | 10.81 | 10.88 | 10.90 | 11.67 |
| P/E Ratio(Net)(☆) | 11.20 | 11.24 | 11.17 | 11.11 | 11.08 | 10.51 |
| SEAQ Bargains(5pm) | 27,059 | 34,315 | 28,243 | 24,881 | 25,423 | 24,287 |
| Equity Turnover(£m)† | - | 1175.81 | 1398.76 | 971.85 | 994.85 | 923.89 |
| Equity Bargains† | - | 37,023 | 30,856 | 28,975 | 30,989 | 30,393 |
| Shares Traded (ml)† | - | 523.9 | 508.2 | 391.2 | 428.7 | 360.0 |

**Ordinary Share Index, Hourly changes**

| ● Opening | ● 10 a.m. | ● 11 a.m. | ● 12 p.m. | ● 1 p.m. | ● 2 p.m. | ● 3 p.m. | ● 4 p.m. |
|---|---|---|---|---|---|---|---|
| 1769.8 | 1767.8 | 1770.6 | 1771.7 | 1771.1 | 1770.2 | 1770.0 | 1770.5 |

DAY'S HIGH 1772.0 DAY'S LOW 1762.1

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974, ☆Nil 11.10 †Excluding intra-market business. * Corrected figure.

**● S.E. ACTIVITY**

| Indices | May 5 | May 4 |
|---|---|---|
| Gilt Edged Bargains | 95.3 | 80.1 |
| Equity Bargains | 240.0 | 199.9 |
| Equity Value | 2376.6 | 2827.3 |
| 5–Day average | | |
| Gilt Edged Bargains | 89.0 | 86.9 |
| Equity Bargains | 209.0 | 202.6 |
| Equity Value | 2362.3 | 2479.3 |

● London Report and latest Share Index: Tel. 0898 123001

## TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

| Stock | Volume 000's | Closing Price | Day's change | Stock | Volume 000's | Closing Price | Day's change | Stock | Volume 000's | Closing Price | Day's change | Stock | Volume 000's | Closing Price | Day's change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ASDA Group | 3,600 | 166 | +2 | Cookson | 975 | 317 | -1 | Laporte | 59 | 428 | -3 | Royal Bk of Scotland | 462 | 377 | +1 |
| Allied-Lyons | 1,800 | 462 | -9 | Courtaulds | 555 | 325 | -2 | Legal & General | 278 | 326 | | Royal Insurance | 315 | 418 | +1 |
| Amstrad | 1,600 | 118 | -4 | Dalgety | 612 | 350 | +4 | Lloyds Bank | 1,600 | 367 | +2 | STC | 1,200 | 344 | -4 |
| Argyll Group | 872 | 193 | +1 | Dixons | 2,700 | 137 | | LASMO | 250 | 464 | -½ | Saatchi & Saatchi | 1,500 | 282 | -2 |
| Ass. Brit. Foods | 107 | 346 | +1 | Eng. China Clays | 2,900 | 504 | -31 | Lonrho | 1,300 | 274 | | Sainsbury | 1,200 | 242 | -1 |
| BAA | 3,100 | 383 | +4 | Enterprise Oil | 246 | 544 | -5 | Lucas | 399 | 628 | +6 | Scott & Newcastle | 120 | 297 | -3 |
| BAT Inds. | 2,300 | 539 | -1 | FKI Babcock | 792 | 166 | -2 | MB Group | 1,000 | 268 | | Sears | 17,950 | 118 | -6 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

## NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (213) [illegible] Hay (Norman), High-Point, Hornby Grp., Hughes (H.T.), Interlink Express, Jackson Bourne, Jardine Strategic, Johnson Cleaners, Laidlaw Thomson, Min. & Allied Spls., Pacer Systems, Parkfield Grp., Photo-Me, RPS Grp., Redleys, Securicor Grp., Do. "A" N.V., Sidlaw Grp., Steinlight, Sth. Bus. Grp., Spring Ram, Swire Pac. "A", Sycamore Hldgs., Unilever, YRM, INSURANCE (3) Heath (C.E.), Torchmark, Trade Indemnity, LEISURE (4) Capital Radio, Granada, Quadrant Grp., Williams (Rex), MOTORS (2) Airflow Streamlined, Lyon & Lyon, Quicks Grp., NEWSPAPERS (2) Independent, Intl. Thomson, [illegible]

NEW LOWS (26) CHEMICALS (1) [illegible] STORES (3) Empire Stores, Honeysuckle Grp., Parkside Grp., ELECTRICALS (4) Amstrad, Hewlett-Packard, Prestwick, Scholes, ENGINEERING (2) [illegible] INDUSTRIALS (5) Cannon St. Invs., Hestair, Lilleshall, Medical Res., Third Mile Invs., INSURANCE (1) [illegible] LEISURE (1) Juliana's Hldgs., PAPERS (2) [illegible] TEXTILES (4) Atkins Bros., Drummond Grp., Leeds Grp., Palma Grp., TRUSTS (8) [illegible] OILS (2) Claremont UK, Marinex, MINES (3) Bond Corp., Gold Fields S.A., OFS Invs., THIRD MARKET (2) Chelsea Artisans, Royal Sovereign Grp.

# APPOINTMENTS

## Board changes at BSR International

■ BSR INTERNATIONAL has made the following board appointments following the acquisition of five businesses from Emerson in the fields of power conversion, electronic components and instrumentation. Mr Walden O'Dell and Mr Marvin Kolodzik have been appointed to the board as chief executive and finance director respectively and Mr Edward Ostrowski, who is deputy managing director of the Astec subsidiary of BSR, has been appointed an executive director. Mr G.F. Green, Mr J.F. Haggarty, Mr H.C. Harrison, Mr A.S.C. Wu and Mr W.R.A. Wyllie have retired from the board.

The size of the board has been increased to 10, of whom four will be Emerson appointees. The Emerson nominees are: Mr O'Dell and Mr Kolodzik, and Mr Roger Bexon and Mr George Tamke as non-executive directors. Mr Rodney Olsen, finance director of Cable & Wireless, and Mr Peter Marshall, chairman of Ocean Transport and Trading, have both joined the board in a non-executive capacity.

■ Mr Peter Stirrup, chief executive of the Universities Superannuation Scheme, becomes chairman of the NATIONAL ASSOCIATION OF PENSION FUNDS.

WIGGINS TEAPE has appointed Mr Tony Boas *(above)* as chief executive, fine papers operations. He succeeds Mr Ian Kennedy who has been appointed managing director of the Wiggins Teape Group, a wholly-owned subsidiary of B.A.T. Industries.

■ ECI VENTURES, has appointed Mr Roger Hay, Mr Ken Landsberg and Mr Paul Thomas as partners.

■ Mr Andrew Smith is to be appointed a managing director of STANDARD CHARTERED MERCHANT BANK, and will be based in Singapore from the end of this month. He will become chief executive of Standard Chartered Merchant Bank Asia, with regional responsibilities. Mr Smith is a director of Baring Brothers & Co in London and was previously executive director and general manager of Baring Brothers Singapore.

■ Mr Fred Johnston, chairman and chief executive of Johnston Press, Edinburgh, is to be the next president of the NEWSPAPER SOCIETY.

■ Mr W.D. Marr has been appointed chairman and continues as chief executive of DUNEDIN FUND MANAGERS. He succeeds Mr W.G. Cochrane who is retiring as chairman and joint chief executive, but continues as a consultant.

■ Mr Rodolfo Bogni, a managing director of Midland Montagu, international and investment banking arm of MIDLAND GROUP, has been appointed head of treasury and capital markets, and group treasurer.

■ Mr Terry Burke has been appointed as national sales director of CASE-ICC, St Albans.

■ Mr Edward Walker-Arnott, a senior partner of Herbert Smith, has been appointed a non-executive director of STURGE HOLDINGS.

■ BWD RENSBURG has appointed Mr Tony Warren as operations director.

■ MAXWELL CONSUMER PUBLISHING & COMMUNICATIONS has appointed Mr Peter Barber as managing director, Maxwell Consumer Magazines division; Mr Duncan Grant as managing director and Mr William Davis as chairman of Maxwell International Contract Publishing; and Mr Eddie Thomas as managing director, Maxwell Marketing Services division.

## International City Holdings chairman

■ Mr Michael Warren has been appointed to the post of chairman of INTERNATIONAL CITY HOLDINGS, the money broking and investment management firm whose major subsidiary is Fulton Prebon, *Norma Cohen writes.*

Mr Eddie Teraskeiwicz, ICH group chief executive, had been acting chairman since April.

Prior to joining ICH, Mr Warren had been chairman of MW Marshall and Co, the money broking firm, but left in September 1987 following a bid for the company by Mr Gary Klesch. Mr Warren had also been a director of Mercantile House, of which he had been a founder member.

■ BDH, a Merck Group company, has appointed Mr Robert B. O'Connell as managing director. He has been with the group for 15 years, and succeeds Mr R.H.M. Symons who has become deputy chairman of Merck Holding, UK.

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| | Init Chrgs | Canc. Price | Bid Price | Offer Price | + or - | Yield Gr's |
|---|---|---|---|---|---|---|
| **Windsor Trust Mngrs Ltd (1200)F** | | | | | | |
| 83 Kingsway, London, WC2B 6SD 01-405 8331 | | | | | | |
| Capital & Equity | 5 | 63.08 | 65.24 | 69.40 | +0.16 | 6.42 |
| European | 5 | 63.65 | 63.95 | 68.03 | +0.49 | 0.12 |
| Far Eastern | 5 | 61.67 | 61.67 | 65.57 | +0.87 | 0.79 |
| Growth Inc | 5 | 89.96 | 93.10 | 99.05 | -0.11 | 1.38 |
| Growth Acc | 5 | 89.96 | 93.10 | 99.05 | -0.11 | 1.38 |
| Income Inc | 5 | 82.49 | 84.24 | 89.62 | +0.47 | 5.44 |
| Income Acc | 5 | 82.49 | 84.24 | 89.62 | +0.47 | 5.44 |
| Property Share | 5 | 56.14 | 56.14 | 59.76 | +0.14 | 2.03 |
| Smaller Co's | 5 | 58.84 | 62.05 | 65.99 | -0.76 | 1.45 |
| Formerly RBC Trust Managers Ltd | | | | | | |
| Nth American | 5 | 57.17 | 57.17 | 61.34 | +0.05 | 1.75 |
| International | 5 | 45.67 | 45.67 | 48.84 | +0.09 | 1.47 |
| **Wright Seligman Fund Mngts Ltd (1000)H** | | | | | | |
| 11 Blomfield St, London EC2M 7AY 01-588 0592 | | | | | | |
| Growth | 5 | 99.55 | 99.55 | 104.55 | ..... | 3.92 |
| Weekly dealing day Tuesday | | | | | | |
| **The Yorkshire Unit Trst Mngrs Ltd (1200)F** | | | | | | |
| Woodsome Pk, Fenay Bdge, Huddersfield 0484 602250 | | | | | | |
| Yorkshire General | 5¼ | 63.55 | 65.93 | 70.14 | +0.29 | 2.79 |
| YUTM Eqty Inc Tsr | 5¼ | 60.39 | 40.39 | 46.42 | -0.02 | 4.61 |
| YUTM Intl Grth Tst | 5¼ | 48.72 | 48.72 | 52.04 | +0.35 | 1.06 |

## OTHER UK UNIT TRUSTS

**Baillie Gifford & Co Ltd**

Int'l Expt April 19 ... 451.9 470.51

**Cent. Bd. of Fin. of Church of England‡‡**

2 Fore Street, London EC2Y 5AQ 01-588 1815

| | | Bid | Offer | + or - | Yield |
|---|---|---|---|---|---|
| Inv Fund Apr 30 | | 507.65 | | ..... | 4.67 |
| Fxd Int.Sec.Apr 30 | | 141.15 | | ..... | 10.13 |
| Deposit Apr 30 | | 100.00 | | ..... | 12.45 |

**Charities Official Invest. Fund‡‡**

[illegible]

## INSURANCES

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| **Allied Dunbar Assurance Plc** | | | | |
| Allied Dunbar Ctr, Swindon SN1 1EL 0793 514514 | | | | |
| Flexible Inv. Acc. | 258.9 | 272.6 | +0.2 | — |
| Equity Acc. | [illegible] | [illegible] | [illegible] | — |
| Property Acc. | [illegible] | [illegible] | [illegible] | — |
| Far East Acc. | 205.1 | 215.9 | +1.2 | — |
| European Acc. | 21.8 | 23.0 | +0.2 | — |

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| **M & G Life and M & G Pensions—Contd.** | | | | |
| PPP Fund (Cap) | 331.6 | 348.2 | +3.2 | — |
| PPP Fund (Acc) | 502.6 | 527.8 | +4.9 | — |
| Pacific (Cap) | 284.2 | 298.5 | +1.9 | — |
| Pacific (Acc) | 430.8 | 452.4 | +2.8 | — |
| Property (Cap) | 151.5 | 159.2 | -0.1 | — |
| Property (Acc) | 229.7 | 241.3 | -0.2 | — |
| Recovery (Cap) | 234.4 | 246.2 | +0.5 | — |
| Recovery (Acc) | 355.3 | 373.1 | +0.8 | — |
| UK Income (Cap) | 130.4 | 137.1 | +0.2 | — |
| UK Income (Acc) | 197.7 | 207.7 | +0.3 | — |
| Personal Pension (Acc) | | 2035.5 | +19.0 | — |

**MGM Assurance(z)**

MGM House, Heene Rd, Worthing 0903 204631

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| **NEL Britannia Assce Co Ltd—Contd.** | | | | |
| Barings Mgd P'folio | 109.5 | 109.5 | ..... | — |
| Fidelity Mgd P'folio | 109.4 | 109.4 | ..... | — |
| GT Mgd P'folio | 109.5 | 109.5 | ..... | — |
| Gartmore Mgd P'folio | 111.9 | 111.9 | +0.4 | — |
| Henderson Mgd P'folio | 122.6 | 122.6 | +0.1 | — |
| Mainsons Mgd P'folio | 116.6 | 116.6 | +0.1 | — |
| Personal Mgd P'folio | 113.6 | 113.6 | +0.4 | — |
| Royal Tst Mgd P'folio | 109.5 | 109.5 | ..... | — |
| MIM Brit Exempt Tst. | 117.2 | 117.2 | +0.1 | — |
| Equity Screening | 103.2 | 103.2 | +0.6 | — |
| Shareholder | | | | |
| Deposit | 115.5 | 121.6 | ..... | — |
| Gilt | 120.1 | 126.4 | ..... | — |
| Property | 130.8 | 137.7 | -0.1 | — |

[illegible]

Continued on next page

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## MANAGEMENT SERVICES

## OFFSHORE AND OVERSEAS

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### JERSEY (SIB RECOGNISED)

### IoM (SIB RECOGNISED)

### LUXEMBOURG (SIB RECOGNISED)

### SWITZERLAND (SIB RECOGNISED)

### JERSEY (**)

### GUERNSEY (**)

# FT UNIT TRUST INFORMATION SERVICE

## ISLE OF MAN (**)

## LUXEMBOURG (**)

## OTHER OFFSHORE FUNDS

## OFFSHORE INSURANCES

# LONDON SHARE SERVICE

## BRITISH FUNDS

### "Shorts" (Lives up to Five Years)

| 1989 High | Low | Stock | Price £ | + or − | Yield Int. | Red. |
|---|---|---|---|---|---|---|
| 99 | 99 | Treas 10½pc 1989 | 99xd | + | 10.52 | 12.23 |
| 99 | 98 | Exch 10pc 1989 | 99 | + | 10.05 | 12.23 |
| 99 | 99 | Exch 11pc 1989 | 99 | + | 11.06 | 12.16 |
| 97 | 95⅝ | Treas 5pc 1986-89 | 97 | + | 5.11 | 10.13 |
| 99½ | 99 | Exch 10¼pcCv '89 | 99xd | + | 10.30 | 11.08 |
| 101 | 100¼ | Treas 13pc 1990‡‡ | 100¾ | + | 12.90 | 11.76 |
| 99 | 98 | Exch 11pc 1990‡‡ | 99 | + | 11.06 | 10.74 |
| 101 | 99 | Exch. 12½pc 1990 | 100 | + | 12.44 | 11.83 |
| 93 | 91 | Treas. 3pc 1990 | 93xd | + | 3.20 | 9.59 |
| 96 | 95⅝ | Treas 8¼pc 1987-90‡‡ | 96 | + | 8.56 | 11.79 |
| 98 | 95 | Treas. 8pc Cv 1990 ‡‡ | 96 | + | 8.27 | 11.03 |
| 98 | 97 | Treas. 10pcCv 1990 | 97 | + | 10.22 | 11.65 |
| 90 | 87 | Exch 2½pc 1990 | 90xd | + | 2.77 | 9.35 |
| 101 | 99 | Treas 11¾pc 1991 | 100 | + | 11.71 | 11.50 |
| 91 | 89 | Funding 5¾pc '87-91‡‡ | 91 | + | 6.27 | 10.64 |
| 88¾ | 86 | Treas. 3pc 1991 | 88xd | − | 3.38 | 9.30 |
| 100 | 96 | Treas 10pc Cv '91 ‡‡ | 97¼ | + | 10.24 | 11.26 |
| 101 | 98 | Exch. 11pc 1991 | 99 | + | 11.08 | 11.33 |
| 94 | 91 | Treas. 8pc 1991 | 92xd | + | 8.61 | 11.24 |
| 106 | 102 | Treas 12¾pc 1992‡‡ | 104 | + | 12.26 | 10.97 |
| 99½ | 96½ | Treas 10pc 1992 | 97 | + | 10.25 | 11.03 |
| 94 | 91½ | Treas. 8pc 1992 ‡‡ | 92 | + | 8.64 | 11.02 |
| 100¼ | 97 | Treas 10½pc Cv 1992‡‡ | 98xd | + | 10.63 | 10.98 |
| 85 | 82¼ | Treas. 3pc 1992 | 84½xd | ..... | 3.55 | 8.86 |
| 105 | 102 | Exch. 12¼pc '92 | 103 | + | 11.85 | 10.99 |
| 109¼ | 105 | Exch 13½pc 1992 | 107 | + | 12.61 | 10.91 |
| 94 | 90 | Treas 8¼pc 1993 | 92 | + | 8.93 | 10.75 |
| 100 | 96 | Treas 10pc 1993‡‡ | 98 | + | 10.20 | 10.62 |
| 108¾ | 104 | Treas 12½pc 1993‡‡ | 105 | + | 11.81 | 10.72 |
| 87¾ | 84¼ | Funding 6pc 1993‡‡ | 86 | + | 6.98 | 10.03 |
| 113¾ | 109 | Treas 13¾pc 1993‡‡ | 110xd | + | 12.41 | 10.68 |
| 94¾ | 90 | Treas. 8½pc 1994 | 91 | + | 9.24 | 10.67 |
| 117 | 113 | Treas 14½pc 1994‡‡ | 114 | + | 12.64 | 10.49 |
| 113 | 109 | Exch 13½pc 1994 | 110½ | + | 12.21 | 10.70 |

### Five to Fifteen Years

| 1989 High | Low | Stock | Price £ | + or − | Yield Int. | Red. |
|---|---|---|---|---|---|---|
| 100⅝ | 96 | Treas. 10pc Ln. 1994‡‡ | 98xd | + | 10.19 | 10.49 |
| 110¼ | 106 | Exch. 12½pc 1994 | 107 | + | 11.66 | 10.68 |
| 96 | 92 | Treas 9pc 1994‡‡ | 93xd | + | 9.58 | 10.45 |
| 108 | 104 | Treas 12pc 1995 | 105 | + | 11.35 | 10.63 |
| 79 | 74½ | Exch 3pc Gas 90-95 | 76 | ..... | 3.96 | 8.20 |
| 101 | 97½ | Exch. 10¼pc 1995 | 98¼ | + | 10.38 | 10.53 |
| 113 | 109 | Treas 12¾pc 1995‡‡ | 110½xd | + | 11.55 | 10.50 |
| 119 | 114 | Treas. 14pc '96 | 115 | + | 12.10 | 10.64 |

## BRITISH FUNDS—Contd

### Over Fifteen Years

### Undated

### Index-Linked

## INT. BANK AND O'SEAS

## CORPORATION LOANS

## COMMONWEALTH & AFRICAN LOANS

| 1989 High | Low | Stock | Price £ | + or − | Yield Int. | Red. |
|---|---|---|---|---|---|---|
| 89½ | 86½ | NZ 7¼pc 1988-92 | 88 | −½ | 8.24 | 11.80 |
| 206 | 206 | S Rhod 2½pc Non-Asstd. | 206 | ..... | − | − |
| 84½ | 84½ | Do. 4½pc 87-92 Asstd. | 84½xd | ..... | 5.33 | 9.33 |

## LOANS

### Building Societies

| 1989 High | Low | Stock | Price £ | + or − | Yield Int. | Red. |
|---|---|---|---|---|---|---|
| 99 | 98 | N'wide Anglia 8pc 30.5.89 | 99 | ..... | 8.96 | 13.00 |
| 99 | 98 | Do 9pc 26.6.89 | 99 | ..... | 9.87 | 13.37 |
| 99 | 98 | Do. 10pc 17 7.89 | 99 | ..... | 10 74 | 13.17 |
| 99 | 98 | Do. 11pc 7 8.89 | 99 | ..... | 11.12 | 12.99 |
| 99½ | 98 | Do. 11pc 29 8.89 | 99½ | ..... | 11.62 | 13.04 |
| 99 | 99 | Do. 12pc 18.9.89 | 99 | ..... | 12.42 | 13.05 |
| 99 | 99 | Do 12pc 2.10 89 | 99 | ..... | 12.37 | 13.13 |
| 99 | 98 | Do. 11pc 6.11.89 | 99xd | ..... | 11.90 | 13 20 |
| 100 | 99 | Do. 12pc 4.12.89 | 99xd | ..... | 12.37 | 13 19 |
| 100 | 99 | Do. 12pc 2 1.90 | 99 | ..... | 12 85 | 13.18 |
| 100½ | 99 | Do. 12pc 29.1 90 | 99½ | ..... | 12.63 | 13.16 |
| 100 | 99 | Do. 12pc 26.2.90 | 99 | ..... | 12.74 | 13.15 |
| 102¼ | 99 | Do. 3⅞pcIL Ln 2021 | 101xd | +¼ | 4.38 | 4.45 |

### Public Board and Ind.

| 1989 High | Low | Stock | Price £ | + or − | Yield Int. | Red. |
|---|---|---|---|---|---|---|
| 99 | 95 | Agric. Mt. 5pc '59-89 | 99 | ..... | 5.05 | − |
| 47 | 45 | Met. Wtr. 3pc 'B' | 46xd | ..... | 6.52 | 10 41 |

## FOREIGN BONDS & RAILS

| 1989 High | Low | Stock | Price £ | + or − | Div % Gross | Red. Yield |
|---|---|---|---|---|---|---|
| 45 | 40 | Greek 7pc Ass. | 40 | ..... | 3.50 | f8.75 |
| 45 | 40 | Do 6pc 28 Stb. Ass. | 40xd | ..... | 3 | f7.50 |
| 45 | 40 | Do 4pc Mixed Ass. | 40xd | ..... | 2 | f5.00 |
| 80 | 65 | Hung. '24 Ass. | 80 | ..... | 2.75 | f3.57 |

## AMERICANS

Continued on next page

# Money Market Bank Accounts

# Money Market Trust Funds

UNIT TRUST NOTES

# LONDON SHARE SERVICE

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## AMERICANS—Contd

| 1989 High | Low | Stock | Price £ | + or – | Div Gross | C'vr | Y'ld Gr's |
|---|---|---|---|---|---|---|---|
| 24¼ | 21⅝ | Dana Corp $1 | 23¼ | +⅛ | $1.60 | – | 3.9 |
| 10⅝ | 854p | Data General | 10¼ | –⅛ | – | – | – |
| 32¾ | 28⅜ | Dun & Bradstreet $1 | 31 | –⅛ | $1.74 | – | 3.3 |
| 35⅝ | 30½ | Eaton Corpn. 50c | 35⅝xd | +½ | n$2.00 | – | 3.3 |
| 10¼ | 8⅞ | Echlin Inc | 9⅞xd | +⅛ | 70c | – | 4.1 |
| 18¼ | 16⅞ | FPL Group 1c | 18⅜xd | –⅛ | $2.20 | – | 7.1 |
| 32¼ | 27⅝ | Ford Motor $1 | 27⅝xd | –⅛ | $3.00 | – | 6.3 |
| 35⅛ | 30⅞ | GATX 62½c | 35⅛ | +⅝ | $2.00 | – | 3.3 |
| 29⅛ | 24¼ | Gen. Elect. 63c | 28⅞xd | –⅜ | $1.64 | – | 3.4 |
| 567p | 484p | ♦General Host Corp $1 | 508p | +9 | 28c | – | 3.2 |
| 23⅝ | 18¼ | Gillette $1 | 23¼ | +⅛ | 96c | – | 2.4 |
| 769p | 616p | Gt Am First Svgs Bk $1 | 754p | +17 | 60c | – | 4.6 |
| 19⅞ | 16⅛ | Greyhound $1½ | 19¼ | –⅛ | $1.32 | – | 3.9 |
| 11½ | 947p | Hasbro Inc 50c | 10½xd | .... | 16c | – | 0.9 |
| 8½ | 6 | Home Group $1 | 7⅞xd | .... | 20c | – | 1.5 |
| 45⅛ | 32¼ | Honeywell $1½ | 44 | –⅛ | $2.10 | – | 2.8 |
| 17¾ | 15¼ | Houston Inds. | 17⅛ | –⅛ | $2.96 | – | 10.1 |
| 74⅝ | 63⅛ | IBM Corpn $1¼ | 65¼xd | –⅛ | $4.84 | – | 4.3 |
| 52p | 45p | ♦Image Storage/R Sys 1c | 45p | –2 | – | – | – |
| 23⅞ | 18½ | Ingersoll-Rand $2 | 23⅞xd | +⅛ | $1.04 | – | 2.6 |
| 29⅝ | 22½ | Lockheed Crpn. $1 | 28⅝xd | +⅛ | $1.60 | – | 3.3 |
| 18⅞ | 15⅛ | Lone Star Inds $1 | 17⅞xd | +⅛ | $1.90 | – | 6.2 |
| 21¼ | 17½ | Louisiana Land 15c | 21⅛xd | +⅛ | $1.00 | – | 2.8 |
| 15½ | 11½ | Lowe's 50c | 14¾ | –⅛ | 48c | – | 1.9 |
| 21⅞ | 15⅛ | Manuf. Hanover $1 | 19⅞ | –⅛ | $3.28 | – | 9.6 |
| 17⅞ | 13⅛ | Merrill Lynch $1 | 16¾ | .... | $1.00 | – | 3.5 |
| 2255p | 1910p | Moler Inc | 2029p | +18 | 3.2p | – | – |
| 23⅝ | 18¼ | Morgan (JP) $2½ | 21⅞xd | –⅛ | $1.66 | – | 4.5 |
| 44¼ | 35¼ | NYNEX $1 | 43¼ | +⅛ | $4.04 | – | 5.5 |
| 21⅝ | 18¼ | PHH Corp | 21⅛ | –¼ | $1.12 | – | 3.1 |
| 244p | 220p | ♦Pacific Agr. | 243p | .... | – | – | – |
| 22¼ | 19 | Pacificorp $3¼ | 22⅛ | +1⅛ | $2.64 | – | 6.9 |
| 23 | 15⅞ | Pacific Telesis 10c | 22⅞ | +⅛ | $1.76 | – | 4.5 |
| 19 | 15¼ | Pall Corp 25c | 19 | +⅛ | 48c | – | 1.5 |
| 50⅞ | 39⅛ | Pennzoil 83 1/3c | 50½xd | ... | $3.00 | – | 3.5 |
| 21⅞ | 17⅛ | Premark Intl. | 21⅛ | –⅛ | 60c | – | 1.7 |
| 33¼ | 23⅝ | Quaker Oats $5 | 33¼xd | +⅛ | $1.20 | – | 2.1 |
| 26¼ | 23½ | Rep NY Corpn $5 | 25⅞ | +⅛ | $1.28 | – | 2.9 |
| 13¼ | 11⅞ | Rockwell Intl $1 | 13¼xd | +⅛ | 72c | – | 3.2 |
| 29½ | 21⅝ | Southwestern Bell $1 | 29⅛ | +½ | $2.48 | – | 5.0 |
| 23⅞ | 17⅞ | Sun Co. Inc. $1 | 23⅞xd | +⅛ | $1.80 | – | 4.4 |
| 26¼ | 22⅞ | TRW Inc. 62½c | 26¼ | +⅛ | $1.72 | – | 3.8 |
| 19⅛ | 14⅜ | TW Services $5 | 19⅛ | +⅛ | 10c | – | 0.3 |
| 31⅞ | 26¼ | Tenneco $5 | 31⅞ | +⅛ | $3.04 | – | 5.6 |
| 32⅝ | 28 | Texaco $6.25 | 32⅛xd | +⅜ | ♦$3.00 | – | 5.5 |
| 25⅛ | 21⅝ | Texas Instr. $1 | 24½xd | +⅛ | 72c | – | 1.7 |
| 71 | 58⅝ | Time Inc. $1 | 68⅞ | –⅜ | $1.00 | – | 0.8 |
| 17½ | 15⅛ | TRINOVA Corp. | 16½xd | +⅛ | 64c | – | 2.3 |
| 20⅜ | 16 | USX $1 | 20¼xd | –⅛ | $1.40 | – | 4.0 |
| 164p | 126p | ♦Unilab | 162p | .... | – | – | – |
| 31¼ | 22¼ | Utd. Technologies | 30¼ | +⅛ | $1.60 | – | 3.1 |
| 159p | 123p | ♦Unitech Inc | 134p | .... | – | – | – |
| 39 | 31½ | US West | 39 | +¼ | $3.76 | – | 5.6 |
| 29⅛ | 22⅝ | Waste Management $1 | 27⅞xd | –⅛ | 48c | – | 1.0 |
| 17⅝ | 13½ | Whirlpool $1 | 17⅛ | –⅛ | $1.10 | – | 3.8 |
| 20⅝ | 16⅛ | Whitman Corp. | 20⅞xd | –⅛ | 96c | – | 2.7 |
| 31⅞ | 28¼ | ♦Woolworth $3½ | 30⅞ | +⅜ | $1.64 | – | 3.1 |

## CANADIANS

| 1989 High | Low | Stock | Price £ | + or – | Div Gross | C'vr | Y'ld Gr's |
|---|---|---|---|---|---|---|---|
| 157p | 129p | ♦ABM Gold Corp | 139p | +1 | – | – | – |
| 23⅝p | 41½p | ♦Abbot Energy Corp. | 11⅝p | .... | – | – | – |
| 13¼ | 902p | ♦Amer. Barrick Res | 11¼ | –⅛ | – | – | – |
| 3½p | 2½p | ♦Amer. Lightwave | 2½p | .... | – | – | – |
| 19⅝p | 12½p | ♦Armeno | 14⅝p | .... | – | – | – |
| 314p | 94p | ♦Asiamerica Hldgs | 303p | +1 | – | – | – |
| 35¼p | 20¼p | ♦Augmitto Expln. | 20¼p | .... | – | – | – |
| 15½ | 12⅞ | Bk. Montreal | 15½ | +⅛ | $2.12 | – | 6.6 |
| 639p | 655p | Bk. Nova Scot. | 839p | +15 | 84c | – | 4.8 |
| 18⅝ | 17 | BCE | 18⅝ | +⅛ | $2.44 | – | 6.3 |
| 775p | 570p | ♦Bow Valley | 775p | +1 | ♦40c | – | 2.5 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

## BANKS, HP & LEASING

[illegible]

### Hire Purchase, Leasing, etc.

[illegible]

## BEERS, WINES & SPIRITS

[illegible]

## BUILDING, TIMBER, ROADS

[illegible]

## BUILDING, TIMBER, ROADS—Contd

[illegible]

## CHEMICALS, PLASTICS

[illegible]

## DRAPERY AND STORES

[illegible]

## DRAPERY AND STORES—Contd

[illegible]

## ELECTRICALS

[illegible]

## ENGINEERING

[illegible]

## FOOD, GROCERIES, ETC

[illegible]

## HOTELS AND CATERERS

[illegible]

## INDUSTRIALS (Miscel.)

[illegible]

## INDUSTRIALS (Miscel.)—Contd

[illegible]

## INDUSTRIALS (Miscel.)—Contd.

[illegible]

## INSURANCES

[illegible]

حكمة أصول

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## INSURANCES – Contd

[illegible]

## LEISURE

[illegible]

## MOTORS, AIRCRAFT TRADES

[illegible]

### Commercial Vehicles

[illegible]

### Components

[illegible]

### Garages and Distributors

[illegible]

## NEWSPAPERS, PUBLISHERS

[illegible]

## PAPER, PRINTING, ADVERTISING

[illegible]

## PAPER, PRINTING, ADVERTISING – Contd

[illegible]

## PROPERTY

[illegible]

## SHIPPING

[illegible]

## SHOES AND LEATHER

[illegible]

## SOUTH AFRICANS

[illegible]

## TEXTILES

[illegible]

## TOBACCOS

[illegible]

## TRUSTS, FINANCE, LAND

### Investment Trusts

[illegible]

## TRUSTS, FINANCE, LAND – Contd

[illegible]

### Finance, Land, etc

[illegible]

For Ex Lands see Recent Issues

## OIL AND GAS

[illegible]

For Oil Group see Recent Issues

## OIL AND GAS – Contd

[illegible]

## OVERSEAS TRADERS

[illegible]

## PLANTATIONS

### Rubbers, Palm Oil

[illegible]

### Teas

[illegible]

## MINES

### Central Rand

[illegible]

### Eastern Rand

[illegible]

### Far West Rand

[illegible]

### O.F.S.

[illegible]

### Diamond and Platinum

[illegible]

### Central African

[illegible]

### Finance

[illegible]

### Australians

[illegible]

## MINES – Contd

### Tins

[illegible]

### Miscellaneous

[illegible]

## THIRD MARKET

[illegible]

### NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- ° Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ## Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

## REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

| | | |
|---|---|---|
| Albany Inv 20p.... γ | 95xd | +1 |
| Craig & Rose £1.. γ | 720 | ...... |
| Finlay Pkg. 5p.... γ | 91 | ...... |
| Holt (Jos) 25p..... γ | 1295xd | +12 |

### IRISH

| | | |
|---|---|---|
| Cap 8½% Ln 1991.. | £97½ | −⅝ |
| 9pc Cap Ln 1996.. | £97¼ | ..... |
| Fin. 13% 97/02.... | £119½ | ...... |
| Arnotts.................... | 455 | ...... |
| Carrol (P.J.).......... γ | 151 | +1 |
| Hall (R & H).......... | 158 | +7 |
| Heiton Hldgs.......... γ | 77xd | +1 |
| Irish Ropes............. | 282 | ...... |

## TRADITIONAL OPTIONS

3-month call rates

### Industrials

| | p |
|---|---|
| Allied-Lyons | [illegible] |
| Amstrad | [illegible] |
| BAT | [illegible] |
| BOC Grp | [illegible] |
| BSR | [illegible] |
| BTR | [illegible] |
| Barclays | [illegible] |
| Beecham | [illegible] |
| Blue Circle | [illegible] |
| Boots | [illegible] |
| Bowaters | [illegible] |
| Brit. Aerospace | [illegible] |
| Brit. Telecom | [illegible] |
| Burton Ord | [illegible] |
| Cadburys | [illegible] |
| Charter Cons | [illegible] |
| Comm Union | [illegible] |
| Courtaulds | [illegible] |
| [illegible] | [illegible] |
| FKI Babcock | 13 |
| FNFC | 21 |
| Gen Accident | 71 |
| GEC | 15 |
| Glaxo | 90 |
| Grand Met | 38 |
| GUS 'A' | 90 |
| Guardian | 16 |
| GKN | 28 |
| Hanson | 12 |
| Hawker Sidd | 48 |
| ICI | 85 |
| Jaguar | 22 |
| Ladbroke | 38 |
| Legal & Gen | 26 |
| Lex Service | 34 |
| Lloyds Bank | 29 |
| Lucas Inds | 48 |
| Marks & Spencer | 15 |
| Midland Bk | 35 |
| Morgan Grenfell | 28 |

| | |
|---|---|
| NEI | [illegible] |
| Nat West Bk | [illegible] |
| P & O Dfd | [illegible] |
| Plessey | [illegible] |
| Polly Peck | [illegible] |
| Racal Elect | [illegible] |
| RHM | [illegible] |
| Rank Org Ord | [illegible] |
| Reed Intl | [illegible] |
| Sears | [illegible] |
| TSB | [illegible] |
| Tesco | [illegible] |
| Thorn EMI | [illegible] |
| Trust Houses | [illegible] |
| T&N | [illegible] |
| Unilever | [illegible] |
| Vickers | [illegible] |
| Wellcome | [illegible] |

### Property

| | |
|---|---|
| Brit Land | 30 |
| Land Securities | 52 |
| MEPC | 50 |

### Oils

| | |
|---|---|
| Brit Petroleum | 21 |
| Do. Ins. Certs | 12 |
| Burmah Oil | 46 |
| Calor | 35 |
| Charterhall | 2½ |
| Premier | 9 |
| Shell | 85 |
| Ultramar | 21 |

### Mines

| | |
|---|---|
| Cons Gold | 100 |
| Lonrho | 38 |
| RTZ | 40 |

# CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

# Dollar rises through DM1.90

THE DOLLAR broke through DM1.90 for the first time since August last year. There was no sign of co-ordinated intervention by central banks, but it was suggested that demand for the dollar is at present fuelled by investment flows and not speculative buying. If this is true,it makes the job of trying to limit the dollar's rise much more difficult.

The market had its doubts whether a break through DM1.90 would be achieved yesterday. At the beginning of the day the dollar had a very firm tone, after dollar sales of around $100m had failed to prevent the US currency rising against the yen in Tokyo. It is generally thought, however, that the Group of Seven sees DM1.90 as the top of the dollar's acceptable trading range and many dealers believed that a serious attack on this level would not be mounted until later in the week.

The dollar rose to DM1.9075 from DM1.8985; to Y134.80 from Y134.30; to SFr1.7040 from SFr1.6985; and to FFr6.4350 from FFr6.4075. On Bank of England figures the dollar's index rose to 69.1 from 69.0.

If buying of the dollar was the result of investment demand this could mean a favourable outcome at the US Treasury's quarterly refunding auctions. Japanese institutional investors bought dollars heavily yesterday and are expected to bid strongly at today's auction of $9.75bn in three-year notes and tomorrow's offer of $9.5bn in ten-year notes. Fear of oversupply may, however, limit the attraction of 30-year Treasury bonds to be auctioned on Thursday.

The dollar's advance remained a reflection of the yield differential favouring the US and appeared to have little to do with economic fundamentals. The D-Mark failed to gain any support from good West German trade figures. The German trade surplus in March rose to DM12.8bn from DM11.4bn, and the current account surplus to DM8.9bn from a revised DM8.5bn. West German exports in March rose to DM55.1bn from DM50.6bn.

The size of the German trade surplus suggests a revaluation may be required to redress the imbalance in European trade, but this seems unlikely at present with the D-Mark weak against the dollar and with France opposed to a devaluation of the franc against the D-Mark, following the recent improvement in its economic performance.

Sterling had a firm tone, but was on the sidelines as attention was focused on the dollar and D-Mark. UK April producer prices were rather disappointing, but produced no strong reaction. Seasonally adjusted input prices rose 1.6 per cent against 1.4 per cent in March. The market expected a rise of about 1.0 per cent. Output prices rose 0.5 per cent compared with 0.3 per cent, with the market looking for 0.4 per cent.

The pound fell 45 points to $1.6695, but rose to DM3.1850 from DM3.1775; to Y225.00 from Y224.75; to SFr2.8450 from SFr2.8425; and to FFr10.7425 from FFr10.7275. Sterling's index rose 0.1 to 95.1.

### £ IN NEW YORK

| May.8 | Latest | Previous Close |
|---|---|---|
| £ Spot | 1.6750-1.6760 | 1.6750-1.6760 |
| 1 month | 0.38-0.37pm | 0.38-0.36pm |
| 3 months | 1.16-1.14pm | 1.20-1.17pm |
| 12 months | 4.00-3.90pm | 4.15-4.00pm |

Forward premiums and discounts apply to the US dollar

### STERLING INDEX

| | May.8 | Previous |
|---|---|---|
| 8.30 am | 95.0 | 95.3 |
| 9.00 am | 95.0 | 95.1 |
| 10.00 am | 95.0 | 95.1 |
| 11.00 am | 95.0 | 95.0 |
| Noon | 95.1 | 95.1 |
| 1.00 pm | 95.1 | 95.1 |
| 2.00 pm | 95.1 | 95.1 |
| 3.00 pm | 95.1 | 95.1 |
| 4.00 pm | 95.1 | 95.0 |

### CURRENCY RATES

| May.8 | Bank rate % | Special* Drawing Rights | European Currency Unit |
|---|---|---|---|
| Sterling | - | 0.768234 | 0.654935 |
| U.S Dollar | 7 | 1.28756 | 1.09715 |
| Canadian $ | 12.39 | 1.52396 | 1.29935 |
| Austrian Sch. | 5 | 17.1915 | 14.6491 |
| Belgian Franc | 7.75 | N/A | 43.5759 |
| Danish Krone | 7½ | 9.49382 | 8.10407 |
| Deutsche Mark | 4.50 | 2.44289 | 2.08216 |
| Neth.Guilder | 5.50 | 2.75345 | 2.34724 |
| French Franc | 9½ | 8.24563 | 7.02777 |
| Italian Lira | 13½ | 1784.02 | 1519.77 |
| [illegible] | [illegible] | [illegible] | [illegible] |

*All SDR rates are for May.5

### CURRENCY MOVEMENTS

| May.8 | Bank of England Index | Morgan** Guaranty Changes % |
|---|---|---|
| [illegible] | [illegible] | [illegible] |

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for May.5

### OTHER CURRENCIES

| May.8 | £ | $ |
|---|---|---|
| [illegible] | [illegible] | [illegible] |

*Selling rate

### EMS EUROPEAN CURRENCY UNIT RATES

| | Ecu central rates | Currency amounts against Ecu May.8 | % change from central rate | % change adjusted for divergence | Divergence limit % |
|---|---|---|---|---|---|
| Belgian Franc | 42.4582 | 43.5759 | +2.63 | +0.93 | ±1.5344 |
| Danish Krone | 7.85212 | 8.10407 | +3.21 | +1.51 | ±1.5404 |
| German D-Mark | 2.05853 | 2.08216 | +1.15 | -0.55 | ±1.0981 |
| French Franc | 6.90403 | 7.02777 | +1.79 | +0.09 | ±1.3674 |
| Dutch Guilder | 2.31943 | 2.34724 | +1.20 | -0.50 | ±1.5012 |
| Irish Punt | 0.768411 | 0.779389 | +1.43 | -0.27 | ±1.6684 |
| Italian Lira | 1483.58 | 1519.77 | +2.44 | +1.44 | ±4.0752 |

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

### POUND SPOT- FORWARD AGAINST THE POUND

| May.8 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| US | 1.6685 - 1.6770 | 1.6690 - 1.6700 | 0.38-0.35cpm | 2.62 | 1.18-1.14pm | 2.78 |
| Canada | 1.9780 - 1.9865 | 1.9785 - 1.9795 | 0.07pm-0.04cdis | 0.09 | 0.29-0.14pm | 0.43 |
| Netherlands | 3.57¾ - 3.59¾ | 3.58¾ - 3.59¾ | 1⅝-1⅝cpm | 5.64 | 4⅞-4¾pm | 5.37 |
| Belgium | 66.35 - 66.75 | 66.55 - 66.65 | 26-24cpm | 5.41 | 72-37pm | 3.27 |
| Denmark | 12.34¾ - 12.40¼ | 12.38¾ - 12.39¾ | 4¼-3¼orepm | 3.87 | 11⅝-10⅞pm | 3.63 |
| Ireland | 1.1875 - 1.1930 | 1.1910 - 1.1920 | 0.25-0.20ppm | 2.27 | 0.85-0.75pm | 2.69 |
| W. Germany | 3.17¼ - 3.18¾ | 3.18¼ - 3.18¾ | 1¾-1⅝pfpm | 6.36 | 4¾-4½pm | 5.73 |
| Portugal | 261.15 - 263.25 | 262.20 - 263.20 | 2-29cdis | -0.71 | 24-111dis | -1.03 |
| Spain | 196.95 - 197.60 | 197.25 - 197.55 | 5-15cdis | -0.61 | 17-32dis | -0.50 |
| Italy | 2315¾ - 2323½ | 2322½ - 2323½ | 2-1lirepm | 0.77 | 7-4pm | 0.95 |
| Norway | 11.47¼ - 11.51¾ | 11.47¾ - 11.48¾ | 1⅝-1¼orepm | 1.50 | 5¼-4½pm | 1.68 |
| France | 10.71 - 10.74¾ | 10.73¾ - 10.74¾ | 3⅝-3½cpm | 3.98 | 10¾-10pm | 3.79 |
| Sweden | 10.76¼ - 10.78½ | 10.76¼ - 10.77¼ | 1⅜-1¼orepm | 1.39 | 4-3¾pm | 1.37 |
| Japan | 224½ - 225¾ | 224½ - 225½ | 1⅝-1½ypm | 8.33 | 4½-4¾pm | 7.89 |
| Austria | 22.32 - 22.42 | 22.33 - 22.36 | 10¼-9¼gropm | 5.20 | 31¼-25⅞pm | 5.08 |
| Switzerland | 2.83½ - 2.85 | 2.84 - 2.85 | 1⅜-1¼cpm | 5.54 | 4-3¾pm | 5.45 |

Belgian rate is convertible francs. Financial franc 66.80-66.90 . Six-month forward dollar 2.25-2.20cpm 12 months 4.05-3.95pm

### DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

| May.8 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| UK† | 1.6685 - 1.6770 | 1.6690 - 1.6700 | 0.38-0.35cpm | 2.62 | 1.18-1.14pm | 2.78 |
| Ireland† | 1.4005 - 1.4095 | 1.4015 - 1.4025 | 0.17-0.22cdis | -1.66 | 0.34-0.44dis | -1.11 |
| Canada | 1.1830 - 1.1855 | 1.1850 - 1.1860 | 0.23-0.27cdis | -2.53 | 0.67-0.73dis | -2.36 |
| Netherlands | 2.1350 - 2.1500 | 2.1490 - 2.1500 | 0.53-0.51cpm | 2.92 | 1.42-1.38pm | 2.62 |
| Belgium | 39.60 - 39.90 | 39.85 - 39.95 | 7.00-5.50cpm | 1.89 | 18.50-15.50pm | 1.71 |
| Denmark | 7.36¾ - 7.42½ | 7.42 - 7.42½ | 0.90-0.60orepm | 1.14 | 1.80-1.40pm | 0.87 |
| W. Germany | 1.8935 - 1.9080 | 1.9070 - 1.9080 | 0.57-0.55pfpm | 3.54 | 1.54-1.50pm | 3.20 |
| Portugal | 156.90 - 157.40 | 157.30 - 157.40 | 37-52cdis | -3.40 | 125-175dis | -3.82 |
| Spain | 117.50 - 118.30 | 118.20 - 118.30 | 25-35cdis | -3.06 | 88-98dis | -3.16 |
| Italy | 1382¼ - 1391¼ | 1391¼ - 1391¾ | 2.40-2.90liredis | -2.30 | 6.50-7.00dis | -1.95 |
| Norway | 6.84½ - 6.88 | 6.87¼ - 6.87¾ | 0.57-0.82oredis | -1.21 | 1.75-2.05dis | -1.11 |
| France | 6.39 - 6.43¾ | 6.43¼ - 6.43¾ | 0.72-0.67cpm | 1.30 | 1.72-1.62pm | 1.04 |
| Sweden | 6.42¼ - 6.45¼ | 6.44¾ - 6.45¼ | 0.64-0.79oredis | -1.33 | 2.10-2.40dis | -1.40 |
| Japan | 134.30 - 134.85 | 134.75 - 134.85 | 0.68-0.66ypm | 5.98 | 1.73-1.70pm | 5.10 |
| Austria | 13.33½ - 13.36½ | 13.35¾ - 13.36½ | 2.65-2.25gropm | 2.20 | 8.60-7.40pm | 2.40 |
| Switzerland | 1.6925 - 1.7055 | 1.7035 - 1.7045 | 0.42-0.39ypm | 2.87 | 1.17-1.13pm | 2.71 |

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 40.00-40.10.

### EURO-CURRENCY INTEREST RATES

| May.8 | Short term | 7 Days notice | One Month | Three Months | Six Months | One Year |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### EXCHANGE CROSS RATES

| May.8 | £ | $ | DM | Yen | F Fr. | S Fr. | H Fl. | Lira | C $ | B Fr. |
|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

## FINANCIAL FUTURES

# West German bonds fall

WEST GERMAN Government bond futures fell sharply in Liffe trading yesterday after the US dollar broke through key resistance levels against the D-Mark. This increased market fears that the Bundesbank will use higher rates to defend the D-Mark.

The bond contract for June delivery fell to 93.43 at the close, down from 93.55 at the opening and 93.66 on Friday.

UK short sterling futures ended on a firmer note, in line with a slightly softer tone in the cash market. The extent of the rise was limited by the price of the June contract in relation to its cash equivalent.

At a closing price of 87.07, the futures price discounts a base rate of 13 per cent, but any further increase in the price is unlikely to be endorsed by a corresponding decline in cash rates. This is because most traders see little prospect of a cut in bank lending rates between now and the maturity of the June contract.

US Treasury bond futures were marked down as Japanese investors emerged from the long holiday break in Japan as net sellers of US paper. Sentiment is also weighed down by the latest Treasury bill auctions which start today.

### LIFFE LONG GILT FUTURES OPTIONS

| Strike Price | Calls-settlements Jun | Calls-settlements Sep | Puts-settlements Jun | Puts-settlements Sep |
|---|---|---|---|---|
| 92 | 348 | 445 | 0 | 5 |
| 93 | 249 | 351 | 1 | 11 |
| 94 | 151 | 261 | 3 | 21 |
| 95 | 59 | 211 | 11 | 35 |
| 96 | 21 | 136 | 37 | 60 |
| 97 | 5 | 103 | 121 | 127 |
| 98 | 1 | 43 | 217 | 203 |

Estimated volume total, Calls 308 Puts 722
Previous day's open int. Calls 31850 Puts 23265

### LIFFE US TREASURY BOND FUTURES OPTIONS

| Strike Price | Calls-settlements Jun | Calls-settlements Sep | Puts-settlements Jun | Puts-settlements Sep |
|---|---|---|---|---|
| 84 | 541 | 560 | 1 | 24 |
| 86 | 343 | 416 | 3 | 44 |
| 88 | 153 | 253 | 13 | 117 |
| 90 | 28 | 137 | 52 | 201 |
| 92 | 4 | 51 | 228 | 315 |
| 94 | 1 | 25 | 425 | 453 |
| 96 | 0 | 10 | 624 | 638 |

Estimated volume total, Calls 0 Puts 0
Previous day's open int. Calls 2994 Puts 2332

### LIFFE BUND FUTURES OPTIONS

| Strike Price | Calls-settlements Jun | Calls-settlements Sep | Puts-settlements Jun | Puts-settlements Sep |
|---|---|---|---|---|
| 9150 | 193 | 178 | 0 | 23 |
| 9200 | 143 | 141 | 0 | 36 |
| 9250 | 94 | 108 | 1 | 53 |
| 9300 | 51 | 80 | 8 | 75 |
| 9350 | 22 | 57 | 29 | 102 |
| 9400 | 7 | 39 | 64 | 134 |
| 9450 | 1 | 26 | 108 | 171 |

Estimated volume total, Calls 601 Puts 1238
Previous day's open int. Calls 6924 Puts 8063

### LIFFE £/$ OPTIONS

£25,000 (cents per £1)

| Strike Price | Calls-settlements May | Calls-settlements Jun | Puts-settlements May | Puts-settlements Jun |
|---|---|---|---|---|
| 150 | [illegible] | [illegible] | [illegible] | [illegible] |
| 155 | [illegible] | [illegible] | [illegible] | [illegible] |
| 160 | [illegible] | [illegible] | [illegible] | [illegible] |
| 165 | [illegible] | [illegible] | [illegible] | [illegible] |
| 170 | [illegible] | [illegible] | [illegible] | [illegible] |
| 175 | [illegible] | [illegible] | [illegible] | [illegible] |
| 180 | [illegible] | [illegible] | [illegible] | [illegible] |

### LIFFE EURODOLLAR OPTIONS

### LIFFE SHORT STERLING

### LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT £50,000 32nds of 100%

7-10 YEAR 9% NOTIONAL GILT £50,000 32nds of 100%

US TREASURY BONDS 8% $100,000 32nds of 100%

6% NOTIONAL GERMAN GOVT. BOND DM 250,000 100ths of 100%

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

THREE-MONTH STERLING £500,000 points of 100%

THREE MONTH EURODOLLAR $1m points of 100%

THREE MONTH EUROMARK DM 1m points of 100%

FT-SE 100 INDEX £25 per full index point

POUND-$ (FOREIGN EXCHANGE)

DM-STERLING $ per £

### PHILADELPHIA SE £/$ OPTIONS

£31,250 (cents per £1)

### CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

JAPANESE YEN (IMM) Y12.5m $ per Y100

DEUTSCHE MARK (IMM) DM125,000 $ per DM

U.S. TREASURY BILLS (IMM) $1m points of 100%

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

SWISS FRANC (IMM) SFr 125,000 $ per SFr

STANDARD & POORS 500 INDEX $500 times index

### EUROPEAN OPTIONS EXCHANGE

| Series | May. 89 Vol | May. 89 Last | Aug. 89 Vol | Aug. 89 Last | Nov. 89 Vol | Nov. 89 Last | Stock |
|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

TOTAL VOLUME IN CONTRACTS : 49,400

A=Ask B=Bid C=Call P=Put

## MONEY MARKETS

# UK rates lower

UK INTEREST rates adopted a softer tone in London yesterday, the key three-month interbank rate falling to 12 13/16-12¾ per cent from 12 15/16-12⅞ per cent on Friday.

Economic data released yesterday resulted in little reaction from the market. A rise in April producer prices, both on

**UK clearing bank base lending rate 13 per cent from November 25**

the output and input sides, was balanced by modest growth in consumer credit in March and an unchanged final figure for March retail sales.

Overnight interbank money opened at 11¾ per cent and moved up to a high of 12¼ per cent before slipping back to 10¼ per cent. Late balances were taken at 11 per cent.

The Bank of England forecast a surplus of around £450m. Factors affecting the market included bills maturing in official hands and a take up of Treasury bills, together with repayment of any late assistance draining £627m. In addition, banks brought forward balances £110m below target. These were more than offset by Exchequer transactions which added £685m and a fall in the note circulation of £505m.

The forecast was revised to a surplus of £400m and the Bank intervened during the morning by selling £283m of Treasury bills at 12½-12¾ per cent, maturing on June 21.

A further revision took the surplus to £350m, and the Bank sold £50m of Treasury bills in the afternoon at 12 per cent, maturing on Friday.

In Frankfurt, liquidity remained in good supply, pushing rates for short term money down to 6.15-6.20 per cent from 6.25-6.35 per cent on Friday.

However, there is still underlying pressure for a rise in key lending rates. The D-Mark's decline against the dollar is regarded as inflationary. Furthermore, any intervention by the Bundesbank to defend what is regarded as key resistance around the DM1.90 level could drain funds out of the market.

The Bank's attitude is likely to be revealed today when terms on its latest sale and repurchase agreement are made known. A maturing facility will drain DM14bn from the market tomorrow, and traders expect the authorities to allocate between DM10bn and DM12bn.

In New York, the US Federal Reserve added temporary liquidity to the banking system through three-day system repurchase agreements. At the time of the intervention Fed funds were trading at 9⅞ per cent against 9 13/16 per cent on Friday.

### FT LONDON INTERBANK FIXING

(11.00 a.m. May.8) 3 months US dollars / 6 months US Dollars

| | bid | offer | bid | offer |
|---|---|---|---|---|
| [illegible] | 9⅞ | 9⅞ | 9⅞ | 9⅞ |

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

### MONEY RATES

NEW YORK (Lunchtime) — Treasury Bills and Bonds

| | | | |
|---|---|---|---|
| Prime rate | 11½ | One month | [illegible] |
| Broker loan rate | 10¾ | Two month | [illegible] |
| Fed.funds | [illegible] | Three month | [illegible] |
| Fed.funds at intervention | 9⅞ | Six month | [illegible] |
| | | One year | [illegible] |
| | | Two year | [illegible] |
| | | Three year | [illegible] |
| | | Five year | [illegible] |
| | | 7 year | [illegible] |
| | | 10 year | [illegible] |
| | | 30 year | [illegible] |

| May.8 | Overnight | One Month | Two Months | Three Months | Six Months | Lombard Intervention |
|---|---|---|---|---|---|---|
| Frankfurt | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Paris | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Zurich | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Amsterdam | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Tokyo | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Milan | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Brussels | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Dublin | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### LONDON MONEY RATES

| May.8 | Overnight | 7 days notice | One Month | Three Months | Six Months | One Year |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### BASE LENDING RATES

| | % |
|---|---|
| [illegible] | [illegible] |



## COMPANY NOTICES

**OK BAZAARS (1929) LIMITED**
(Incorporated in the Republic of South Africa)
Notice to 6% Second Cumulative Preference Shareholders
Dividend Number 101

NOTICE IS HEREBY GIVEN that the half yearly dividend of 3% has this day been declared payable on 30th May 1989, in the currency of the Republic of South Africa, to all holders of 6% Second Cumulative Preference Shares registered in the books of the Company at the close of business on 12th May 1989.

The usual non-resident shareholders' tax of 15% will be deducted where applicable.

The Register of Members will be closed in Johannesburg and London from 13th to 21st May 1989, both dates inclusive, for the purpose of the above dividend.

BY ORDER OF THE BOARD
P.E. KRITZINGER
Secretary

Registered Office: OK Buildings, 80 Eloff Street, Johannesburg 2001, 2nd May 1989
Transfer Secretaries: Hill Samuel Registrars Ltd, 6 Greencoat Place, London SW1P 1PL

**OK BAZAARS (1929) LIMITED**
(Incorporated in the Republic of South Africa)
Declaration of Dividend

NOTICE IS HEREBY GIVEN that final dividend number 113 at the rate of 74 cents per share in respect of the financial year which commenced on 1st April 1988 has this day been declared payable on 3rd July 1989, in the currency of the Republic of South Africa, to all holders of Ordinary Shares registered in the books of the Company at the close of business on 19th May 1989. Non-resident shareholders' tax of 15 per cent will be deducted where applicable.

The Registers of Members will be closed in Johannesburg and London from 20th May 1989 to 28th May 1989, both days inclusive, for the purpose of the above dividend.

Copies of the Report and Accounts will be despatched to shareholders and will be available at the office of the London Transfer-Secretaries, Hill Samuel Registrars Ltd, 6 Greencoat Place, London, SW1P 1PL.

BY ORDER OF THE BOARD
P.E. KRITZINGER
Secretary

Registered Office: OK Buildings, 80 Eloff Street, Johannesburg 2001, 2nd May 1989
Transfer Secretaries: Hill Samuel Registrars Ltd, 6 Greencoat Place, London SW1P 1PL

**NOTICE TO BONDHOLDERS**

CITY OF COPENHAGEN
30,000,000 European Units of Account
7% 1978/1993 Bonds

Pursuant to the provisions of the Purchase Fund, notice is hereby given to Bondholders that no Bonds have been purchased for the Purchase Fund during the twelve-month period from May 2, 1988 to May 1, 1989.

Amount outstanding: UA 18,133,000

Luxembourg, May 9, 1989
THE FISCAL AGENT
KREDIETBANK
S.A. LUXEMBOURGEOISE

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## EXPORT FINANCE

The Financial Times proposes to publish this survey on:
1 JUNE 1989
For a full editorial synopsis and advertisement details, please contact:
EDWARD MACQUISTEN
on 01-873 3306
or write to him at:
Number One
Southwark Bridge
London
SE1 9HL

## JOTTER PAD

# CROSSWORD

No.6,929 Set by FETTLER

**ACROSS**

1 Curiously a ruling's unique (8)
5 Following operation I consumed a sleep inducing drug (6)
10 Athenian garret (5)
11 I sew in a different way (9)
12 Expressing doubt in test, yet winning out (9)
13 Literally nothing shuts up (5)
14 Commercial song is one way to make sound (6)
15 Clansman doffed his cap, showing high spirits (7)
18 Becoming tangled, coupling takes time (7)
20 Heads of whiting and herring – dubious and smelly (6)
22 In this a London drawing-room (5)
24 At this very moment in time; left in a nasty mess (9)
25 See brooding hen suffer, covering battery egg (9)
26 Setter's past the perfect state (5)
27 An idiot is oddly tinged (6)
28 Being nimble, he designed this palace (8)

**DOWN**

1 Keeping feline in a pen is crazy (6)
2 Inner tum is churning – time for food (9)
3 Bring a friend in? Can't, being unsociable (15)
4 She follows one, not being different (7)
6 National prose is peculiar to oneself (15)
7 Showing spirit – having a drink about four (5)
8 Church service comprising plainchant (8)
9 Pulley left for one to put aside (6)
16 Fat Auntie, unlikely to exercise charm (9)
17 Discharge task, following easy start (8)
19 Sandy is plucky .... (6)
20 ..... Walter's dissipated and profligate (7)
21 Brush around yard and closet (2-4)
23 Thrashed and braided (5)

Solution to Puzzle No.6,928

# WORLD STOCK MARKETS

AUSTRIA (Sch.) — [illegible]

BELGIUM/LUXEMBOURG (Frs.) — [illegible]

DENMARK (Kr.) — [illegible]

FINLAND (Mks.) — [illegible]

FRANCE (Frs.) — [illegible]

FRANCE (continued) — [illegible]

GERMANY (Dm.) — [illegible]

GERMANY (continued) — [illegible]

ITALY (Lire) — [illegible]

ITALY (continued) — [illegible]

NETHERLANDS (Fls.) — [illegible]

NORWAY (Kroner) — [illegible]

SPAIN (Pts. %) — [illegible]

SWEDEN (Kronor) — [illegible]

SWITZERLAND (Frs.) — [illegible]

SOUTH AFRICA (Rand) — [illegible]

JAPAN (Yen) — [illegible]

AUSTRALIA (Aust.$) — [illegible]

HONG KONG (H.K.$) — [illegible]

SINGAPORE (S$) — [illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

## CANADA

### TORONTO
2pm prices May 8

Quotations in cents unless marked $

[illegible]

| Sales | Stock | High | Low | Close | Chng |
|---|---|---|---|---|---|
| 63200 | Cara A f | $17 | 16⅞ | 17 | |
| 6400 | Carena | $23½ | 23½ | 23½ | + ⅛ |
| 300 | Cascades | $6⅝ | 6⅝ | 6⅝ | + ⅛ |
| 2200 | Celanese | $32¼ | 32 | 32¼ | |
| 1012 | Cen Capital | $11⅝ | 11⅜ | 11⅜ | − ⅛ |
| 4376 | CenCap A | $9½ | 9⅜ | 9½ | + ⅛ |
| 400 | CentFd A | $5⅝ | 5⅝ | 5⅝ | + ⅛ |
| 2167 | C Gear Tro | $21½ | 21⅛ | 21⅛ | − ⅛ |
| 1800 | Charan | 115 | 110 | 110 | − 5 |
| 82025 | Hees Intl | $31⅛ | 30⅞ | 31 | − ⅛ |
| 176950 | Hemlo | $12⅝ | 12⅜ | 12⅜ | + ⅛ |
| 2500 | Hollingr | $13⅝ | 13⅜ | 13⅜ | − ⅜ |
| 571564 | Horsham f | $9¾ | 9½ | 9⅝ | − ⅛ |
| 2542 | H BayMn s | $9¼ | 9⅛ | 9⅛ | − ⅛ |
| 6310 | H Bay Co | $26¼ | 26 | 26¼ | + ⅛ |
| 7450 | Imasco L | $30⅞ | 30½ | 30½ | − ½ |
| 23783 | Imp Oil A | $54⅛ | 53¾ | 54 | − ⅛ |
| 183413 | Inco | $35⅛ | 35 | 35 | − ⅛ |
| 5 | Pamour | $6⅝ | 6⅝ | 6⅝ | |
| 200 | PanCan P | $25 | 25 | 25 | − ⅛ |
| 9360 | Pegasus | $10⅞ | 10⅝ | 10⅝ | − ⅛ |
| 4600 | PJewl A f | $15 | 15 | 15 | |
| 664 | Pioneer M | 150 | 150 | 150 | − 3 |
| 284308 | Placer Dm | $14⅝ | 14½ | 14⅝ | − ⅛ |
| 52200 | Poco Pet | $7⅛ | 7⅛ | 7⅛ | + ⅛ |
| 9500 | Powr Cor f. | $15¼ | 15⅛ | 15⅛ | − ⅛ |
| 3300 | Powr Fin | $19⅛ | 19 | 19 | |
| 1800 | WIC B f | $14⅝ | 14½ | 14½ | − ⅛ |
| 13300 | Wcoast E | $17⅛ | 17⅛ | 17⅛ | |
| 3765 | Westmin | $10 | 10 | 10 | |
| 2100 | Weston | $37¼ | 37 | 37¼ | + ⅛ |
| 24032 | Woodwd A | $8⅛ | 7⅞ | 8 | + ⅛ |
| 700 | Xerox Can | $18⅛ | 18⅛ | 18⅛ | + ⅛ |

f—No voting rights or restricted voting rights.

## INDICES

### NEW YORK — DOW JONES

| | May 5 | May 4 | May 3 | May 2 | 1989 High | 1989 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|---|
| ♦Industrials | 2381.96 | 2384.90 | 2393.70 | 2402.86 | 2418.99 (27/4) | 2144.64 (3/1) | 2722.42 (25/8/87) | 41.22 (2/7/32) |
| Home Bonds | 88.62 | 88.75 | 88.89 | 88.93 | 89.62 (8/2) | 87.35 (23/3) | – | – |
| Transport | 1129.85 | 1130.50 | 1130.98 | 1133.57 | 1144.08 (27/4) | 959.95 (3/1) | 1144.08 (27/4/89) | 12.32 (8/7/32) |
| Utilities | 192.86 | 192.27 | 192.45 | 192.15 | 192.86 (5/5) | 181.84 (24/2) | 227.83 (22/1/87) | 10.50 (8/4/32) |

♦Day's High 2415.69 (2399.01) Low 2371.88 (2373.35)

| STANDARD AND POOR'S | May 5 | May 4 | May 3 | May 2 | 1989 High | 1989 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|---|
| Composite ‡ | 307.61 | 307.77 | 308.16 | 308.12 | 309.64 (28/4) | 275.31 (3/1) | 336.77 (25/8/87) | 4.40 (1/6/32) |
| Industrial | 354.16 | 354.69 | 354.99 | 354.61 | 357.49 (21/4) | 318.66 (3/1) | 393.17 (25/8/87) | 3.62 (21/6/32) |
| Financial | 28.29 | 28.25 | 28.37 | 28.56 | 28.83 (21/4) | 24.30 (3/1) | 32.43 (25/8/87) | 8.64 (1/10/74) |
| NYSE Composite | 172.14 | 172.21 | 172.35 | 172.37 | 173.13 (28/4) | 154.98 (3/1) | 187.99 (25/8/87) | 4.46 (25/4/42) |
| Amex Mkt. Value | 346.84 | 345.89 | 344.56 | 344.66 | 346.84 (5/5) | 305.24 (3/1) | 365.01 (13/8/87) | 29.31 (9/12/72) |
| NASDAQ OTC Comp | 430.74 | 429.23 | 428.87 | 428.03 | 430.74 (5/5) | 378.56 (3/1) | 455.28 (26/8/87) | 54.87 (31/10/72) |

| | May 5 | Apr 28 | Apr 21 | year ago (approx.) |
|---|---|---|---|---|
| Dow Industrial Div. Yield | 3.51 | 3.45 | 3.46 | 3.54 |

| | May 3 | Apr 26 | Apr 19 | year ago (approx.) |
|---|---|---|---|---|
| S & P Industrial div. yield | 3.08 | 3.08 | 3.05 | 2.94 |
| S & P Indl. P/E ratio | 13.64 | 13.60 | 13.62 | 15.35 |

TRADING ACTIVITY † Volume (Millions)

| | May 5 | May 4 | May 3 |
|---|---|---|---|
| New York | 180.810 | 153.774 | 171.690 |
| Amex | 12.218 | 12.402 | 9.347 |
| OTC | 156.066 | 146.383 | 142.487 |

| NEW YORK | May 5 | May 4 | May 3 |
|---|---|---|---|
| Issues Traded | (u) | 1,930 | 1,914 |
| Rises | 795 | 661 | 680 |
| Falls | 608 | 723 | 690 |
| Unchanged | (u) | 546 | 544 |
| New Highs | (u) | 76 | 80 |
| New Lows | (u) | 16 | 18 |

### CANADA

| TORONTO | May 5 | May 4 | May 3 | May 2 | 1989 High | 1989 Low |
|---|---|---|---|---|---|---|
| Metals & Minerals | 3313.5 | 3309.4 | 3348.7 | 3369.8 | 3564.9 (6/2) | 3207.5 (3/1) |
| Composite | 3599.2 | 3597.6 | 3589.4 | 3604.9 | 3696.1 (8/2) | 3350.5 (6/1) |
| MONTREAL Portfolio | 1837.39 | 1837.07 | 1833.20 | 1840.62 | 1850.44 (8/2) | 1677.48 (3/1) |

### NEW YORK ACTIVE STOCKS

| Friday | Stocks traded | Closing price | Change on day | | Stocks traded | Closing price | Change on day |
|---|---|---|---|---|---|---|---|
| Anoq Prod | 2,378,500 | 36⅛ | + ⅛ | Freeport McMoran | 1,453,200 | 36½ | + ⅛ |
| Amer Elect | 1,941,900 | 26⅛ | + ⅛ | IBM | 1,444,300 | 109⅜ | − 1¼ |
| Upjohn | 1,777,500 | 30⅞ | − ⅛ | Bowater | 1,429,100 | 31¼ | − 1¼ |
| Exxon | 1,612,200 | 42⅞ | ---- | AT&T | 1,421,500 | 34½ | ---- |
| Columbia | 1,456,000 | 20⅝ | + ⅛ | Eastman Kodak | 1,415,000 | 43 | − ¼ |

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

| | May 8 | May 5 | May 4 | May 3 | 1989 High | 1989 Low |
|---|---|---|---|---|---|---|
| **AUSTRALIA** | | | | | | |
| All Ordinaries (1/1/80) | 1512.6 | 1510.7 | 1512.9 | 1504.8 | 1551.7 (31/1) | 1412.9 (7/4) |
| All Mining (1/1/80) | 680.3 | 682.1 | 681.1 | 676.4 | 727.0 (26/1) | 652.6 (7/4) |
| **AUSTRIA** | | | | | | |
| Credit Aktien (30/12/84) | 317.89 | 316.32 | (c) | 314.97 | 317.89 (8/5) | 219.5 (2/1) |
| **BELGIUM** | | | | | | |
| Brussels SE (1/1/80) | 5944.77 | (c) | (c) | 5944.18 | 5949.61 (2/5) | 5519.30 (4/1) |
| **DENMARK** | | | | | | |
| Copenhagen SE (3/1/83) | 308.58 | 306.72 | (c) | 305.63 | 308.58 (8/5) | 275.49 (27/2) |
| **FINLAND** | | | | | | |
| Unitas General (1975) | 797.3 | 803.4 | 804.5 | 805.5 | 815.8 (18/4) | 723.3 (4/1) |
| **FRANCE** | | | | | | |
| CAC General (31/12/82) | (c) | 461.9 | (c) | 463.9 | 470.4 (24/4) | 417.9 (4/1) |
| Ind. Tendance (30/12/88) | (c) | 109.0 | (c) | 109.1 | 111.3 (24/4) | 97.5 (27/2) |
| **GERMANY** | | | | | | |
| FAZ Aktien (31/12/58) | 579.77 | 579.62 | (c) | 574.47 | 585.28 (13/4) | 535.78 (27/2) |
| Commerzbank (1/12/53) | 1721.6 | 1722.0 | (c) | 1706.2 | 1741.9 (13/4) | 1595.7 (27/2) |
| DAX (30/12/87) | 1380.07 | 1380.46 | (c) | 1368.60 | 1394.62 (17/4) | 1271.70 (23/2) |
| **HONG KONG** | | | | | | |
| Hang Seng Bank (31/7/64) | 3268.54 | 3262.86 | 3221.12 | 3155.22 | 3268.54 (8/5) | 2706.69 (3/1) |
| **ITALY** | | | | | | |
| Banca Com. Ital. (1972) | 605.68 | 608.75 | 611.34 | 610.14 | 620.30 (24/4) | 577.49 (28/2) |
| **JAPAN** | | | | | | |
| Nikkei (16/5/49) | 34135.24 | (c) | (c) | (c) | 34135.24 (8/5) | 30183.79 (5/1) |
| Tokyo SE (Topix) (4/1/68) | 2544.60 | (c) | (c) | (c) | 2544.60 (8/5) | 2366.91 (6/1) |
| **NETHERLANDS** | | | | | | |
| CBS Tu.Rtn.Gen. (End 1983) | 239.4 | 240.1 | (c) | 236.4 | 240.1 (5/5) | 208.3 (3/1) |
| CBS All Shr (End 1983) | 189.3 | 190.0 | (c) | 187.5 | 190.6 (27/4) | 166.7 (1/3) |
| **NORWAY** | | | | | | |
| Oslo SE (2/1/83) | 644.82 | 646.46 | (c) | 637.55 | 665.61 (19/4) | 467.17 (2/1) |
| **SINGAPORE** | | | | | | |
| Straits Times Ind. (30/12/66) | (c) | 1282.52 | 1283.54 | 1284.87 | 1284.87 (3/5) | 1030.69 (4/1) |
| **SOUTH AFRICA** | | | | | | |
| JSE Gold (28/9/78) | 1449.0♦ | 1462.0 | (c) | 1468.7 | 1639.0 (23/3) | 1291.0 (15/2) |
| JSE Industrial (28/9/78) | 2535.0♦ | 2559.0 | (c) | 2559.0 | 2581.0 (28/4) | 1961.0 (3/1) |
| **SPAIN** | | | | | | |
| Madrid SE (30/12/85) | 303.33 | 301.41 | 300.83 | 300.23 | 303.33 (8/5) | 268.61 (1/3) |
| **SWEDEN** | | | | | | |
| Jacobson & P. (31/12/56) | 3886.2 | 3892.4 | (c) | 3898.6 | 3912.2 (6/4) | 3333.9 (3/1) |
| **SWITZERLAND** | | | | | | |
| Swiss Bank Ind. (31/12/58) | 680.2 | 667.6 | (c) | (u) | 686.0 (28/4) | 613.1 (3/1) |
| **WORLD** | | | | | | |
| M.S. Capital Intl. (1/1/70) | (u) | 513.9 | 514.2 | 513.6 | 519.0 (17/2) | 491.2 (28/3) |

♦ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

### TOKYO - Most Active Stocks
Monday 8 May 1989

| | Stocks Traded | Closing Prices | Change on day | | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|---|---|---|---|
| Sumitomo Metal | 114.1m | 959 | +19 | Kawasaki Steel | 29.8m | 1,070 | -10 |
| Nisshin Steel | 53.6m | 1,780 | +60 | Osaka Gas | 28.7m | 950 | +18 |
| Mitsui Eng & Ship | 44.9m | 985 | +20 | NKK | 22.9m | 965 | -3 |
| Nippon Steel | 43.9m | 959 | +8 | Kobe Steel | 22.1m | 922 | -10 |
| Hitachi Zosen | 31.0m | 845 | +25 | Toray | 20.3m | 1,070 | +10 |

3pm prices May 8

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 12 Month High | 12 Month Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| | | – A – A – A – | | | | | | | | |
| 29⅞ | 21¾ | AAR | .44 | 1.5 | 19 | 45 | 29½ | 29 | 29 | – ½ |
| 10⅛ | 8⅞ | ACM n | 1.01 | 11. | | 31 | 9 | 8⅞ | 8⅞ | – ⅛ |
| 11⅞ | 10¼ | ACMIn | 1.26a | 12. | | x338 | 10¾ | 10½ | 10⅝ | |
| 10⅛ | 8½ | ACM M | n1.01 | 11. | | 185 | 9 | 8⅞ | 8⅞ | – ⅛ |
| 11½ | 10⅛ | ACM Sc | 1.26 | 12. | | 735 | 10⅝ | 10½ | 10½ | |
| 10⅛ | 8⅞ | ACMSp | n1.01 | 12. | | 342 | 8⅞ | 8⅝ | 8¾ | + ⅛ |
| 4⅝ | 2⅞ | AMCA | .12e | 2.9 | 28 | 214 | 4⅛ | 3⅞ | 4⅛ | + ⅛ |
| 6⅛ | 3½ | AM Intl | | | | 236 | 5⅜ | 5⅛ | 5⅜ | |
| 23½ | 18¼ | AM Int pf | 2 | 8.8 | | 6 | 22⅝ | 22½ | 22⅝ | + ⅛ |
| 64¼ | 39 | AMR | | | 7 | 3514 | 62⅛ | 61¼ | 61⅝ | – 1⅛ |
| 9½ | 4¼ | ARX | | | | 20 | 4⅜ | 4¼ | 4⅜ | |
| 47 | 35¼ | ASA | 3a | 7.4 | | 281 | 40⅞ | 40¼ | 40¼ | – ⅛ |
| 20¼ | 14¾ | AVX | .24 | 1.3 | 9 | 196 | 18½ | 18¼ | 18¼ | – ⅛ |
| 58¼ | 42⅞ | AbtLab | 1.40 | 2.5 | 16 | 2221 | 55⅞ | 54¾ | 55⅜ | – ¼ |
| 19 | 15⅜ | Abitibi g | 1 | | | 79 | 16⅞ | 16¾ | 16¾ | – ⅛ |
| 12 | 7½ | AcmeC | .40 | 3.9 | | 107 | 10⅞ | 10¼ | 10¼ | |
| 8 | 5⅞ | AcmeE | .32 | 4.1 | 18 | 36 | 7⅞ | 7¾ | 7¾ | |
| 32⅛ | 20¼ | Acuson | | | 24 | 408 | 31 | 30¾ | 31 | |
| 16⅞ | 14¼ | AdaEx | 1.82e | 12. | | 66 | 15 | 14⅞ | 14⅞ | |
| 16⅞ | 7⅛ | AMD | | | | 1066 | 8⅛ | 8⅝ | 8⅝ | |
| 49½ | 28¼ | AMD pf | 3 | 9.0 | | 2 | 33¼ | 33¼ | 33¼ | – ⅛ |
| 8⅝ | 6½ | Adobe | | | | 39 | 8⅞ | 8⅝ | 8⅝ | + ⅛ |
| 18¼ | 16½ | Adob pf | 1.84 | 10. | | 2 | 18 | 18 | 18 | + ¼ |
| 9¾ | 5⅞ | Advest | .12 | 1.8 | 16 | 10 | 6⅞ | 6¾ | 6¾ | – ⅛ |
| 54⅞ | 39½ | AetnLf | 2.76 | 5.3 | 8 | 2061 | 52⅛ | 51⅞ | 51⅞ | – ½ |
| 49½ | 24 | AhPb s | .22 | .5 | | 819 | 48½ | 47⅞ | 48½ | |
| 20 | 13¾ | Ahmans | .88 | 4.5 | 9 | 2500 | 19⅞ | 19⅝ | 19⅝ | – ½ |
| 4⅝ | 2⅞ | Aileen | | | 19 | 20 | 3⅜ | 3¼ | 3⅜ | |
| 53⅞ | 37⅞ | AirPrd | 1.20 | 2.9 | 10 | 852 | 42 | 41½ | 41½ | – ½ |
| 28⅞ | 16½ | AirbFrt | .60 | 2.3 | 24 | 467 | 26 | 25½ | 25⅝ | – ¼ |
| 18⅜ | 11⅝ | Airgas | | | 12 | 45 | 18⅛ | 17⅞ | 18 | |
| 20½ | 17¾ | Airlease | 2.40 | 12. | 9 | 14 | 19⅞ | 19½ | 19⅞ | + ⅜ |
| 9⅞ | 8½ | AlaP dpf | .87 | 9.4 | | 68 | 9¼ | 9¼ | 9¼ | |
| 96¾ | 89¼ | AlaP pf | 9 | 10. | | z50 | 90 | 90 | 90 | – ⅛ |
| 86 | 80 | AlaP pf | 8.16 | 9.7 | | 212 | 84⅛ | 84 | 84⅛ | + ⅞ |

[illegible]

Continued on Page 49

حكمة من الأصل



# NYSE COMPOSITE PRICES

Continued from previous Page

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

# AMEX COMPOSITE PRICES

3pm prices May 8

# OVER-THE-COUNTER

Nasdaq national market, 2pm prices May 8

AMERICA

# Dow disappoints as slide continues in slow session

## Wall Street

IT WAS a disappointing start to the week as the Dow Jones Industrial Average failed to rebound from Friday's late loss which had been tied almost exclusively to stock index arbitrage selling, *writes Janet Bush in New York.*

At 2pm, the Dow Jones stood 15.39 points lower at 2,366.57 and appeared to be heading for its seventh consecutive daily loss. Volume was very sluggish with only 78m shares changing hands by midsession.

On Friday, both stock and bond markets had traded higher in response to a rise in the non-farm payroll in April which was only about half of what economists had predicted.

Although the selling in the equity market was largely technical, yesterday's drop suggested that markets were also reacting negatively to the wages and hours-worked figures contained in the April employment release which suggested significant upward pressure on wages in spite of the deceleration in the pace of job creation.

The Treasury bond market slipped in spite of a stronger dollar, with traders citing renewed inflation worries. Concern about upward pressure on wages was heightened by Friday's news of a deal between Bethlehem Steel and its union which will give steelworkers a pay rise of about 20 per cent over the next four years.

Although this compensates them for the wage cuts during the steel crisis, there was concern that higher settlements could spread to other sectors of the economy.

Inflation fears normally return to haunt markets in the week of a Producer Prices Index release. Friday's April PPI is being looked at with extra caution because of these fresh concerns on the wages front. The consensus forecast is for a rise in the PPI of 0.7 per cent compared with 0.4 per cent in March.

An important technical talking point is the increasingly marked divergence between the Dow Jones Industrial Average and the various indices of secondary stocks. While the blue chip index has declined consistently, secondary stocks have held up well.

Traders are now waiting to see whether secondary issues confirm the weakening trend of the Dow or whether they can sustain their steady performance and therefore help the Dow to reach a bottom from where it can recover.

Yesterday morning, the Nasdaq index dropped about 0.53 per cent – close to a 0.6 per cent fall in the Dow. However, the Amex index on the American Stock Exchange fell only about 0.35 per cent.

Concerns about the economy weakening too fast with no discernible drop in inflation appear finally to be depressing stocks, which have virtually ignored recessionary fears in recent weeks. Airline stocks, which are particularly cyclical and sensitive to economic deceleration, were sharply weaker.

UAL dropped $1⅞ to $123, NWA was down $1 at $104⅞ and AMR fell $1¼ to $61⅞.

Tandy Brands jumped $2⅝ to $20 on the American Stock Exchange after the company said it had received expressions of interest from possible suitors which it would consider.

Ogilvy Group added $2¼ to $52 as WPP Group of Britain raised its offer by $5 a share to $50.

Fairchild Industries gained $1⅛ to $17⅞ after Banner Industries agreed to purchase it for $18 a share.

Tidewater dropped $1⅞ to $8⅛ after Mr Irwin Jacobs, the investor, withdrew his group's $11-a-share offer.

## Canada

IN THE absence of market-moving news, Toronto continued to slide in morning trade. By midday, the composite index had declined 21.8 to 3,577.4 on volume of 11.5m shares.

Varity lost 5 cents to C$3.20 as it announced an agreement to take over Fruehauf.

*Cineplex Odeon* gained C$⅞ to C$16⅝ after Mr Garth Drabinsky, the chairman, said a group he led was interested in making a bid for all the stock it did not already own.

# Far Eastern markets vie for starring role

By Hilary de Boerr

ASIAN stock markets seemed unstoppable last week, vying with one another to produce the largest number of record highs, in spite of holiday trading.

Singapore soared to post-crash peaks on three of its four trading days, ending the week 3 per cent higher in local currency terms, according to the FT-Actuaries World Indices. Tokyo jumped to all-time highs on both of its two trading session for a rise of 1.2 per cent. And Hong Kong, the week's best performer with a surge of 5.3 per cent, racked up two post-crash records in its five-day week.

The region's sparkling performance left other world bourses looking decidedly dull.

Europe moved little as many fund managers took advantage of national daily holidays and took the whole week off. That left other players reluctant to take sizeable positions and the region edged up by just 0.27 per cent. North America, meanwhile, lost ground on domestic economic concerns.

Hong Kong's sharp rise was fuelled by both political and economic considerations. Worries over the student demonstrations in Beijing had restricted trading the previous week, but buyers returned on indications that events had passed smoothly. Signs of continued firmness in Hong Kong property prices aided such stocks, and the property sector surged by 7 per cent over the week.

Properties were also popular in Singapore and Malaysia – the latter rose 2.4 per cent last week – with a prime residential site in Singapore fetching a record amount. Financial and mining stocks were most in demand, however, and each sector climbed by 5 per cent.

In Japan, institutional investors returned, inspired by Prime Minister Noboru Takeshita's plans to resign over the Recruit scandal. That market produced its fifth consecutive record high before closing last Wednesday for three days for the Golden Week holiday.

Last week's worst performer was South Africa, where the three-day week and continued weakness of the gold price dampened trading and left share prices about 2 per cent lower. The picture would have been worse, but for news of strong earnings growth from industrial groups.

The US market had a disappointing week, losing ground every day to close Friday with a five-day drop of 0.6 per cent. Lower-than-expected earnings per share from Eastman Kodak hit share prices early in the week, after which the wait for last Friday's US employment figures kept investors on the defensive. The encouraging news on employment fueled an early rally on the final day of the week, but profit-taking and programme trading soon wiped out gains.

The world as a whole rose 0.4 per cent last week, and so far this year has climbed by 9 per cent. Every FT-A stock market has gained ground since the year began, with increases ranging between 0.4 per cent for Italy and 41.7 per cent for Norway.

The UK is the year's best performer of the three leading markets, having risen by 18.2 per cent compared with 10.7 per cent for the US and 6.3 per cent for Japan.

MARKETS IN PERSPECTIVE

| | % change in local currency † | | | | % change in sterling † |
|---|---|---|---|---|---|
| | 1 Week | 4 Weeks | 1 Year | Start of 1989 | Start of 1989 |
| Austria | +0.37 | +4.47 | +52.13 | +36.71 | +39.07 |
| Belgium | +0.20 | +0.95 | +17.38 | +4.77 | +6.93 |
| Denmark | +0.89 | +5.19 | +73.07 | +23.70 | +24.15 |
| Finland | -1.44 | -2.68 | +24.96 | +17.64 | +25.22 |
| France | -0.26 | +1.81 | +49.65 | +9.50 | +11.87 |
| West Germany | +0.46 | +1.47 | +28.97 | +4.76 | +5.80 |
| Ireland | -0.77 | +3.13 | +35.54 | +18.73 | +20.88 |
| Italy | -0.77 | -0.13 | +17.71 | +0.39 | +2.21 |
| Netherlands | -0.89 | +1.43 | +25.52 | +13.13 | +14.41 |
| Norway | +1.48 | +7.24 | +70.21 | +41.70 | +46.22 |
| Spain | +0.40 | +0.15 | +7.20 | +7.03 | +11.30 |
| Sweden | -0.12 | +0.69 | +41.79 | +14.56 | +17.84 |
| Switzerland | -1.06 | -1.36 | +15.16 | +6.61 | +1.91 |
| UK | +0.80 | +4.89 | +18.26 | +18.24 | +18.24 |
| EUROPE | +0.27 | +2.75 | +33.48 | +12.25 | +12.98 |
| Australia | +0.72 | +7.67 | +8.89 | +1.28 | +2.65 |
| Hong Kong | +5.25 | +8.56 | +34.50 | +23.26 | +33.67 |
| Japan | +1.17 | +2.01 | +16.26 | +6.30 | +6.91 |
| Malaysia | +2.44 | -8.58 | +43.25 | +26.35 | +37.17 |
| New Zealand | +1.03 | +5.20 | +1.71 | +8.30 | +16.39 |
| Singapore | +3.02 | +9.70 | +36.50 | +26.83 | +36.59 |
| Canada | -0.76 | +1.09 | +7.30 | +7.45 | +7.10 |
| USA | -0.56 | +3.51 | +19.44 | +10.66 | +19.61 |
| Mexico | +0.68 | +9.45 | +56.64 | +19.96 | +21.61 |
| South Africa | -1.99 | +1.24 | +59.56 | +28.63 | +27.79 |
| WORLD INDEX | 0.42 | +2.74 | +18.76 | +9.03 | +12.41 |

† Based on Friday May 5th, 1989.


ASIA PACIFIC

# Pent-up demand helps Nikkei break record

## Tokyo

A SURGE of buying enthusiasm, which had been pent up over the five-day break, greeted the start of trading and lifted the Nikkei average over the 34,000 mark to a new high, *writes Michiyo Nakamoto in Tokyo.*

Share prices began to climb early in the day amid broad-based buying by individual investors and index-linked funds. After moving from a high of 34,170.54 to a low of 33,979.80, the Nikkei average closed up 180.25 at a sixth consecutive high of 34,135.24. Advances and declines evened out at 465 issues each, while 160 issues were unchanged.

Turnover, at 1.12bn shares, was lower than the 1.19bn traded on May 2, the last trading session. The Topix index of all listed shares gained 27.11 to 2,544.60 while, in London, the ISE/Nikkei 50 rose 3.12 to 2,013.74.

After a five-day break, investors in Tokyo returned to the market with renewed energy and enthusiasm, amid expectations of higher prices in the near future. Speculation that quasi-public organisations, such as agricultural co-operatives, would be directing more funds into the market was the main reason for the bullish view of short-term prospects.

In addition, recent negative influences on trading have gradually cleared up, at least as far as the market is concerned. The political troubles of the ruling Liberal Democratic Party, brought on by the Recruit scandal, appeared to be receding after the announcement of the resignation of Prime Minister Takeshita and the forced passage of the budget through the Lower House of the Diet (parliament).

Furthermore, although it is widely expected that there will be a rise in Japan's official discount rate in the near future, it is also believed that a modest rise of about 0.5 per cent has already been taken into account by the market.

The yen weakened further against the dollar yesterday, hitting its low for the year of Y134.70 at one stage. Investors, however, were expecting the yen to fall to Y135 against the dollar and were more interested in what it would do after it reached that level.

Individual investors selected lagging issues. With the Nikkei average moving around the high level of 34,000, it was difficult for them to buy higher-priced issues. Interest focused on shares that have retreated substantially from their highs or those that are relatively cheap.

The share rise was also supported by buying from index-linked trust funds.

Among laggards, utilities were popular. Tokyo Electric Power added Y490 to Y6,550. As well as being underperformers, utilities also benefited from lower crude oil prices.

Some electricals and financials were favoured, also because they have been trailing the market. Sony gained Y300 to Y2,420, Matsushita added Y60 to Y2,420, Sumitomo Bank increased Y90 to Y3,580 and Nomura Securities advanced Y110 to Y3,550.

Large-capital steels and shipbuildings attracted interest as low-priced issues. They were expected to be market leaders in the next few weeks, during which institutional investors are likely to be more active than they have been recently. Participation in the market will become more difficult as the elections to the House of Representatives approach in early July.

Sumitomo Metal was the most actively traded issue, with 114.1m shares, and added Y19 to Y959. Nisshin Steel, second in volume terms with 58.6m shares, rose Y60 to Y1,780. Nisshin was popular for expected higher earnings, thanks to increased domestic demand for its products supported by a buoyant construction industry.

Some steels, however, lost to profit-taking, with Kawasaki Steel down Y10 at Y1,070.

Mitsui Engineering and Shipbuilding, third in volume terms with 44.9m shares, rose Y30 to Y985. Hitachi Zosen gained Y25 to Y945 in heavy trading.

Interest in lagging issues supported trading in Osaka, where the OSE average advanced 226.65 to 33,168.90. Volume at 129m shares was up from the 100m traded last Tuesday. Kansai Electric Power advanced Y500 to Y5,050.

## Roundup

*LEADING Asian Pacific markets performed well, with Hong Kong again seizing the starring role as it hit another post-crash high. Singapore was closed for a holiday.*

HONG KONG reached its third successive post-crash peak, but ended off its day's highs. The Hang Seng index closed 5.68 up at 3,268.54, having met resistance when it touched 3,295. Turnover was busy at HK$2.5bn worth of shares.

Property stocks attracted profit-taking. Hongkong Land was the most active issue, adding 10 cents to HK$12.50, after rising 30 cents earlier.

AUSTRALIA was supported by a strong banking sector and by rises in individual stocks. The All Ordinaries index picked up 2.1 to 1,512.6 in moderate turnover of 73m shares, worth A$169m.

News Corp, still benefiting from news of the sale of its travel industry publishing arm for A$1.3bn, gained 25 cents to A$12.55.

Among banks, National Australia was up 12 cents at A$6.46, ANZ rose 10 cents to A$5.12 and Westpac added 6 cents to A$5.48.

Amatil, which plans to reorganise its business interests, advanced 10 cents to A$12.05.

TAIWAN was propelled higher by demand for export-related shares. The weighted index gained 122.97, or 1.5 per cent, to 8,480.11 as turnover jumped to T$107bn worth of shares traded from T$80bn.

## SOUTH AFRICA

THE MODEST rise in bullion prices failed to inspire gold shares and the Johannesburg market closed the session generally easier.



EUROPE

# Spain seizes centre stage in generally quiet trade

A CONTINUATION of last week's holiday mood left European bourses little changed, although Spain rose to another 1989 peak, *writes Our Markets Staff.* France was closed for Armistice Day.

FRANKFURT was underpinned by interest in chemical stocks – several groups report this week – but concern over the dollar proved a negative force and share prices slipped into the red.

The DAX index closed off 0.39 at 1,380.07 and the FAZ index edged up 0.15 to 578.77 while West German volumes reached DM3.4bn in value.

Henkel, the chemicals group, reported 21 per cent higher profits and an improved dividend and its preference shares rose DM2.50 to DM532.50.

Hoechst rose DM1 to DM305.90, while Bayer, which reports first quarter results today, added 30 pfg to DM304.50. BASF, reporting tomorrow, was unchanged at DM295.40. Hoechst, Bayer and BASF were among the top four most active issues.

Hoesch, which announced higher group net profits, gave up 70 pfg to DM245, while car maker Daimler lost DM1.50 to DM669.50 – having risen to DM675 – before today's annual news conference, at which it should give an indication of first quarter performance.

MADRID kept climbing, reaching its fourth consecutive year high, as investors' appetites for construction stocks and utilities continued unabated.

The general index rose 1.92 to 303.33 on active buying by foreign and domestic investors, with turnover pegged at more than Friday's Pta13.5bn in value. Foreigners are estimated to have stepped up their buying by about 25 per cent in recent sessions compared with March and April, with French and German players particularly active.

Asland, the cement group, rose 62 points to 1,730. Cristalería climbed 15 to 1,655 and Dragados added 11 to 615. Repsol's introduction to the stock market this Thursday kept the spotlight on the oil sector and Petromed rose 22.5 to 948.5 while Cepsa picked up 6 to 534.

MILAN eased further in low volumes, with the Comit index off 3.07 at 605.66. One analyst said the market was "in no mood to get started again."

News that a second broker in less than a week had declared insolvency added to the cautious mood. The announcement, by Mr Enrico Guigni of Rome, came after that of his brother, Mr Gerardo Guigni of Milan, whose declaration caused the postponement of the settlement of the April trading account last week.

Fiat slipped again, losing L70 to L9,180, in the wake of the resignation of the group finance director last Friday.

Pirelli declined L65 to L3,205. The group announced a 28 per cent annual profits rise.

AMSTERDAM opened stronger but came off in the afternoon in generally quiet trading. The cautious tone was reinforced when Wall Street opened lower.

Individual stocks put in above-average performances. In the insurance sector, Aegon, trading ex rights, rose 60 cents to Fl 102.20 and Stad Rotterdam, the insurer, which announced a four-for-one share split and made an optimistic forecast for the first quarter, surged Fl 5 to Fl 153.50. Stad Rotterdam's chairman also said he would be making further statements on foreign co-operation.

In line with other leading blue chips, Unilever, which reports first-quarter results on Friday, slipped 70 cents to Fl 135.70.

The CBS tendency index eased 0.6 to 182.7.

ZURICH had another quiet day, as worries about the direction of Wall Street and interest rates restricted trading. The Crédit Suisse index lost 1.9 to 569.9.

The banking sector, which accounts for about a quarter of the market's capitalisation, was jittery; UBS bearers fell SFr20 to SFr3,150 and SBC lost SFr2 to SFr308.

STOCKHOLM was quiet again with few features apart from the suspension of trading in Hexagon, reported to be facing a revised takeover bid from Axel Johnson.

The Affärsvärlden index rose 0.6 to 1,138.7 in turnover worth SKr150m – low, but better than Friday's SKr106m, which was the lowest day's trading for May in five years.

OSLO finished lower on profit-taking as news of government moves to reopen the domestic bond market to foreigners and to cut interest rates by a ½ point came after the close. The all share index fell 1.38 to 492.07.

BRUSSELS failed to pick up after the four-day break and the last day of the two-week trading account ended mixed in thin trading.

Asturienne, the non-ferrous metals group, fell further, dropping BFr22 to BFr1,326 as 24,000 shares were traded, after its recent rise on rumours that parent Société Générale was increasing its stake.

The cash market index dipped 2.66 to 5,955.63.

HELSINKI fell slightly in a light session, with the Unitas all-share index falling 6.1 to 797.3. Some traders stayed away before a series of company results due next month.

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

| NATIONAL AND REGIONAL MARKETS | FRIDAY MAY 5 1989 | | | | | | THURSDAY MAY 4 1989 | | | DOLLAR INDEX | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Figures in parentheses show number of stocks per grouping | US Dollar Index | Day's Change % | Pound Sterling Index | Local Currency Index | Day's change % local currency | Gross Div. Yield | US Dollar Index | Pound Sterling Index | Local Currency Index | 1989 High | 1989 Low | Year ago (approx) |
| Australia (89) | 137.25 | −0.8 | 121.56 | 114.02 | −0.4 | 4.88 | 138.06 | 121.58 | 114.46 | 157.12 | 128.28 | 121.19 |
| Austria (19) | 123.47 | +0.7 | 109.35 | 121.17 | +0.6 | 2.13 | 122.60 | 107.97 | 120.45 | 124.16 | 92.84 | 91.29 |
| Belgium (63) | 133.68 | +0.5 | 118.39 | 130.38 | +0.0 | 4.17 | 133.00 | 117.13 | 130.38 | 137.10 | 128.52 | 127.42 |
| Canada (127) | 136.04 | +0.2 | 120.48 | 116.58 | +0.1 | 3.37 | 135.80 | 119.59 | 116.47 | 137.27 | 124.57 | 121.25 |
| Denmark (38) | 180.01 | +0.0 | 159.43 | 180.81 | +0.3 | 1.85 | 180.08 | 158.59 | 180.26 | 180.57 | 165.35 | 118.45 |
| Finland (26) | 151.65 | −0.8 | 134.31 | 134.50 | −0.5 | 1.56 | 152.92 | 134.67 | 135.24 | 159.16 | 125.81 | 127.81 |
| France (130) | 119.09 | +0.2 | 105.47 | 119.69 | +0.5 | 3.10 | 118.87 | 104.69 | 119.11 | 122.79 | 112.57 | 89.26 |
| West Germany (100) | 86.10 | +0.6 | 76.26 | 84.98 | +0.9 | 2.35 | 85.61 | 75.39 | 84.21 | 90.40 | 81.77 | 75.44 |
| Hong Kong (49) | 138.30 | +1.6 | 122.48 | 138.14 | +1.6 | 3.87 | 136.12 | 119.87 | 135.96 | 138.30 | 111.80 | 102.40 |
| Ireland (17) | 147.40 | −0.2 | 130.55 | 147.77 | +0.3 | 2.85 | 147.75 | 130.11 | 147.38 | 151.36 | 125.00 | 122.78 |
| Italy (98) | 80.62 | −0.7 | 71.31 | 83.35 | −0.5 | 2.52 | 81.11 | 71.43 | 83.76 | 86.88 | 78.16 | 75.70 |
| Japan (455) | 189.47 | −0.3 | 167.80 | 160.84 | +0.0 | 0.47 | 189.96 | 167.29 | 160.84 | 200.11 | 180.30 | 175.30 |
| Malaysia (36) | 182.14 | +0.5 | 161.32 | 189.16 | +0.5 | 2.52 | 181.28 | 159.65 | 188.16 | 182.14 | 143.35 | 132.61 |
| Mexico (13) | 182.12 | −0.2 | 161.29 | 485.54 | −0.1 | 1.04 | 182.46 | 160.68 | 486.25 | 182.88 | 153.32 | 123.96 |
| Netherland (42) | 119.00 | +0.0 | 105.39 | 116.23 | +0.4 | 4.43 | 118.98 | 104.78 | 115.75 | 122.22 | 110.68 | 107.65 |
| New Zealand (24) | 72.81 | +0.0 | 64.48 | 61.71 | −0.4 | 6.00 | 72.77 | 64.09 | 61.99 | 76.02 | 66.84 | 78.14 |
| Norway (26) | 187.99 | +0.9 | 166.49 | 175.42 | +1.2 | 1.53 | 186.26 | 164.03 | 173.30 | 198.39 | 139.92 | 123.01 |
| Singapore (26) | 158.14 | +0.0 | 140.05 | 142.14 | −0.1 | 1.91 | 158.19 | 139.31 | 142.22 | 158.19 | 124.57 | 112.73 |
| South Africa (60) | 138.16 | +0.2 | 122.37 | 126.37 | +0.0 | 4.10 | 137.84 | 121.39 | 126.34 | 144.86 | 115.35 | 124.99 |
| Spain (42) | 152.83 | −0.3 | 135.35 | 136.33 | +0.1 | 3.57 | 153.25 | 134.96 | 136.24 | 156.17 | 143.14 | 150.95 |
| Sweden (35) | 157.68 | −0.2 | 139.65 | 150.21 | +0.1 | 2.29 | 157.92 | 139.07 | 150.03 | 162.00 | 138.45 | 121.60 |
| Switzerland (57) | 73.63 | −0.9 | 65.21 | 77.54 | −0.2 | 2.39 | 74.29 | 65.43 | 77.66 | 79.76 | 73.63 | 77.49 |
| United Kingdom (315) | 148.06 | +0.1 | 131.13 | 131.13 | +0.6 | 4.32 | 147.96 | 130.30 | 130.30 | 153.33 | 134.53 | 139.22 |
| USA (560) | 125.27 | −0.1 | 110.95 | 125.27 | −0.1 | 3.56 | 125.35 | 110.39 | 125.35 | 125.97 | 112.13 | 104.88 |
| Europe (1008) | 119.80 | +0.0 | 106.10 | 112.77 | +0.5 | 3.56 | 119.75 | 105.46 | 112.24 | 121.70 | 114.02 | 108.58 |
| Nordic (125) | 154.60 | −0.1 | 136.93 | 153.16 | +0.2 | 1.98 | 154.73 | 136.26 | 152.83 | 155.61 | 137.95 | 112.36 |
| Pacific Basin (679) | 185.14 | −0.2 | 163.97 | 157.66 | +0.0 | 0.69 | 185.57 | 163.42 | 157.63 | 194.72 | 176.37 | 170.32 |
| Euro – Pacific (1687) | 159.02 | −0.1 | 140.83 | 139.77 | +0.2 | 1.57 | 159.25 | 140.24 | 139.55 | 164.22 | 152.83 | 145.62 |
| North America (687) | 125.82 | +0.0 | 111.43 | 124.74 | −0.1 | 3.55 | 125.88 | 110.86 | 124.81 | 126.52 | 112.79 | 105.76 |
| Europe Ex. UK (693) | 102.25 | +0.0 | 90.56 | 101.41 | +0.3 | 2.94 | 102.22 | 90.02 | 101.07 | 105.29 | 98.84 | 89.61 |
| Pacific Ex. Japan (224) | 133.17 | +0.3 | 117.94 | 117.64 | +0.4 | 4.30 | 132.80 | 116.95 | 117.23 | 137.65 | 123.48 | 110.23 |
| World Ex. US (1887) | 158.02 | −0.1 | 139.95 | 139.00 | +0.2 | 1.65 | 158.23 | 139.35 | 138.78 | 162.77 | 152.04 | 144.57 |
| World Ex. UK (2132) | 144.97 | −0.1 | 128.39 | 134.65 | +0.0 | 2.03 | 145.16 | 127.83 | 134.60 | 146.04 | 138.06 | 128.30 |
| World Ex. So. Af. (2387) | 145.27 | −0.1 | 128.66 | 134.36 | +0.1 | 2.23 | 145.44 | 128.08 | 134.25 | 148.65 | 138.82 | 129.28 |
| World Ex. Japan (1992) | 124.07 | +0.0 | 109.89 | 120.55 | +0.2 | 3.59 | 124.07 | 109.26 | 120.37 | 124.65 | 114.61 | 107.15 |
| The World Index (2447) | 145.23 | −0.1 | 128.62 | 134.30 | +0.1 | 2.24 | 145.39 | 128.04 | 134.19 | 146.51 | 138.83 | 129.26 |


Markets closed May 5: Belgium and Japan. Latest prices were unavailable for this edition.